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Office of the President

TO MEMBERS OF THE ACADEMIC AND STUDENT AFFAIRS COMMITTEE:

DISCUSSION ITEM

For Meeting of November 13, 2019

UNDERGRADUATE FINANCIAL AID AT THE UNIVERSITY OF CALIFORNIA

EXECUTIVE SUMMARY

Regents Policy 3201: The University of California Financial Aid Policy is implemented through a strategy called the Education Financing Model (EFM). This item will review key elements of Regents Policy, the EFM, and recent financial aid policy discussions, including recommendations from the 2017 Total Cost of Attendance Working Group and reforms to the Cal Grant Program under consideration by the State of California. The Academic and Student Affairs Committee has asked for a presentation in March of 2020 to expand on different potential policy changes to the EFM.

BACKGROUND

Education Financing Model (EFM)

The Education Financing Model (EFM) is the University's strategy for implementing Regents Policy 3201: The University of California Financial Aid Policy, which reads:

> *The University's undergraduate student support policy is guided by the goal of maintaining the affordability of the University for all the students admitted within the framework of the [California] Master Plan.*

The policy is systemwide, which means that cost should not be a deciding factor in a California student's choice of UC campus. The EFM is an integrated framework that is intended to:

- Measure the systemwide need for undergraduate financial aid;
- Allocate resources across UC campuses to make the net cost similar for families in similar circumstances across campuses; and,
- Guide campuses in making individual student financial aid packages.

The EFM has three critical principles, all of which draw directly from Regents Policy 3201.

Principle 1: Total Cost of Attendance is the Context for Measuring Affordability.

Both the Regents policy and the EFM recognize that affordability for California and domestic students and families must include all educational costs, including books, supplies, food, housing, transportation, personal expenses, health insurance, tuition, and fees.

UC develops 27 cost of attendance budgets for students. These include three living categories (living on-campus, living off-campus, living with parents), recognizing that students face different cost structures by living situation (i.e., higher transportation costs for commuter students and lower living costs for students living with parents). Having these three budgets for each of the nine undergraduate campus is important given the different living expense costs across the state.

UC estimates the total cost of attendance by using campus data for direct charges (e.g., on-campus housing) and survey data for indirect expenses (e.g., groceries). The Total Cost of Attendance (TCOA) Working Group recommended improvements to the student expense budgets (see below). While all 27 budgets are based on average reported expenses, they can also be adjusted for individuals whose expenses are higher (e.g., child care for student parents, extraordinary medical expenses).

Principle 2: Covering the Total Cost Requires a Partnership.

Regents Policy 3201 treats covering the total cost of attendance as a partnership between students, their parents/families, and State, federal, and University financial aid programs.

Parents/Families	Students	Grant Support
• Progressive, based on ability to pay using federal formula (income, assets, family size) • Expectations range from $0 to cost of attendance	• Work part-time (<20 hrs) during school year, full-time during the summer • Loan debt such that repayments are 5-9% of average income	• Cal Grants ($950M) primarily cover tuition • Federal Pell Grants ($400M) • UC Grant ($800M) fills in gaps: two-thirds cover living costs

The expectation of parents is a progressive model based on the federal financial aid need analysis. The lowest-income parents are not asked to contribute anything. Students who are independent of their parents for financial aid purposes, and therefore do not have an expected parent contribution, include student parents, veterans, foster youth, married students, formerly homeless youth, and students in a legal guardianship.

Students are asked to contribute through manageable part-time work and student loans. (See below for more about work and borrowing outcome measures.) UC pulls together federal, State, and University grant support to help cover the rest.

- 80,100 California students received nearly $400 million in Federal Pell Grants in 2017-18
- 75,500 students received Cal Grants totaling $950 million, nearly all of which covers tuition
- 100,100 students received UC need-based grants totaling nearly $800 million
- 8,200 students received $25 million in state Middle Class Scholarship awards

Principle 3: Student Work and Borrowing Must Be Manageable to be Affordable.

The Regents Policy 3201 states that,

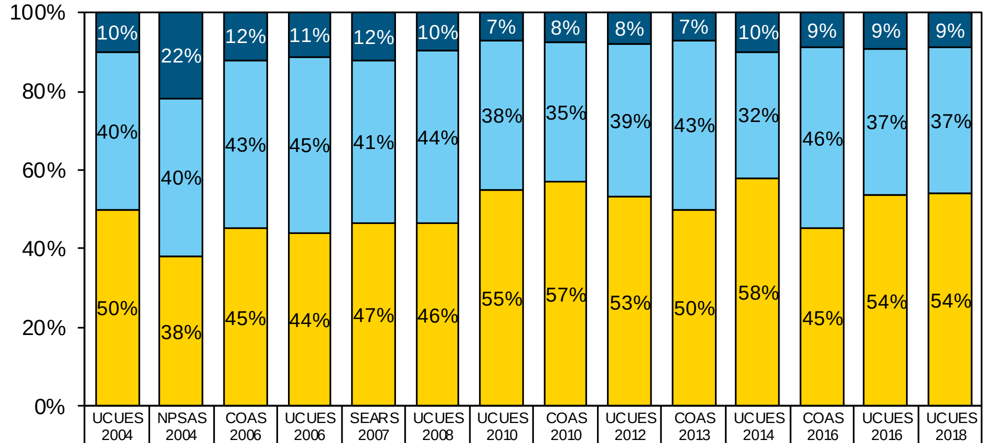
> *[F]unding levels for grants will assume manageable debt levels based on expected earnings after graduation relative to loan repayment obligations and manageable work expectations that reflect the number of hours per week that students can work while enrolled during the academic year or over the summer without any significant adverse impact on academic performance.*

The EFM currently defines a range of manageable working (six to 20 hours during the academic year) and student debt (five to nine percent of post-graduate earnings). Students have flexibility in how they choose to meet the assumed part-time work and student loan. For example, they can choose to exchange part-time work for additional borrowing or vice versa. They can also reduce their need to work and borrow by earning outside scholarships or tapping into savings.

With current funding levels, the assumed average work during the academic year should be about 13 hours per week and the average debt should be about seven percent of the average earnings. Given that students have choices in how they finance their assumed contribution, tracking actual student working and borrowing patterns is important to assessing the effectiveness of the EFM.

Figure 1 shows the share of students reporting work hours from a variety of surveys over time. A significant portion of students chose not to work in the given survey year, but a portion of students in every survey also report working more than 20 hours per week.

Figure 1: Manageability of Student Employment, Recent Surveys, All Undergraduates



	UCUES 2004	NPSAS 2004	COAS 2006	UCUES 2006	SEARS 2007	UCUES 2008	UCUES 2010	COAS 2010	UCUES 2012	COAS 2013	UCUES 2014	COAS 2016	UCUES 2016	UCUES 2018
> 20 hours per week	10%	22%	12%	11%	12%	10%	7%	8%	8%	7%	10%	9%	9%	9%
1 to 20 hours/week	40%	40%	43%	45%	41%	44%	38%	35%	39%	43%	32%	46%	37%	37%
Did not work	50%	38%	45%	44%	47%	46%	55%	57%	53%	50%	58%	45%	54%	54%

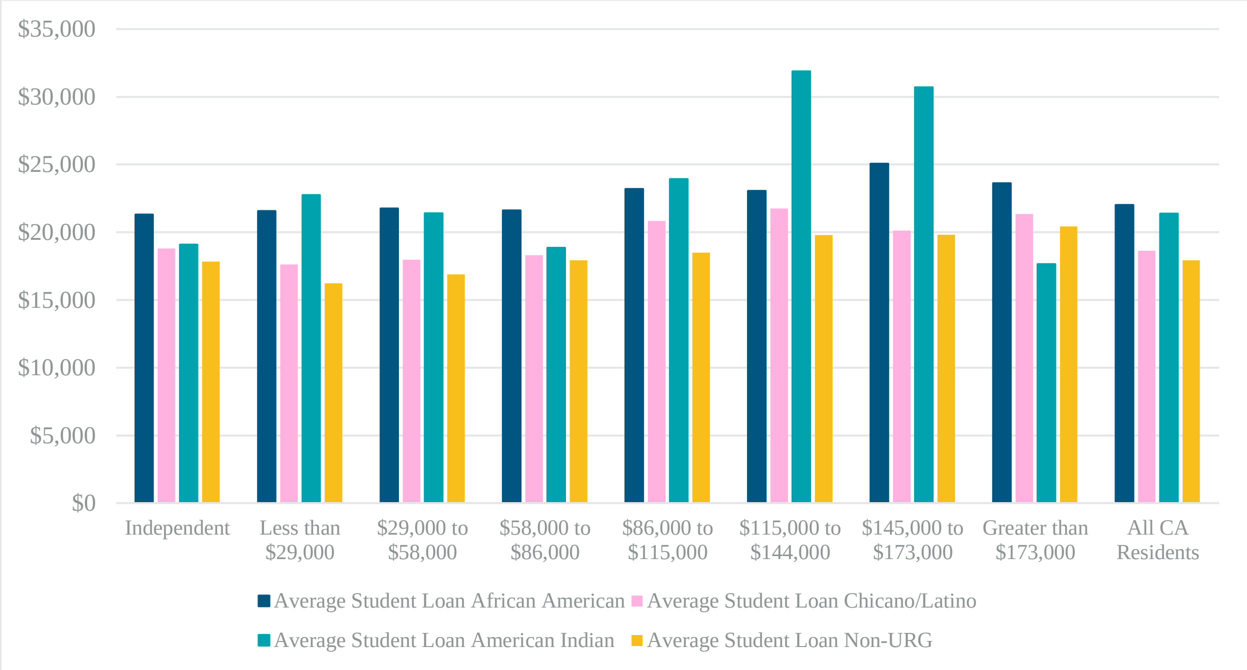
Similarly, UC debt figures on average show that students graduate with less debt than students at comparable institutions. Figure 2 is from the Accountability Report and shows that the average debt for a UC student who entered as a freshman is $21,100, significantly below the national average. More importantly, the average debt is seven percent of the median income for UC graduates after two years in the workforce and less than five percent of the median income for UC graduates after five years in the workforce.

Figure 2: Average cumulative loan debt, UC and national comparison institutions, 2016–17 graduates

Berkeley	$18,197
Davis	$19,124
Irvine	$19,745
Merced	$19,551
Santa Barbara	$20,665
UC AVERAGE	$21,100
Riverside	$21,104
San Diego	$21,430
Los Angeles	$22,013
Santa Cruz	$22,804
Public 4-year	$27,293
Private nonprofit 4-year	$32,810
National Average	$28,350

The Academic and Student Affairs Committee reviewed how average debt can vary for underserved groups in July 2019. Figure 3 below was presented to the Regents in July. It shows that, even controlling for income, the amount of average student loan debt at graduation is greater for African American, Chicano/Latino, and American Indian students than non-underrepresented students. Addressing those outcomes, as described in July, likely involve a deeper exploration of how UC assesses a family's ability to pay.

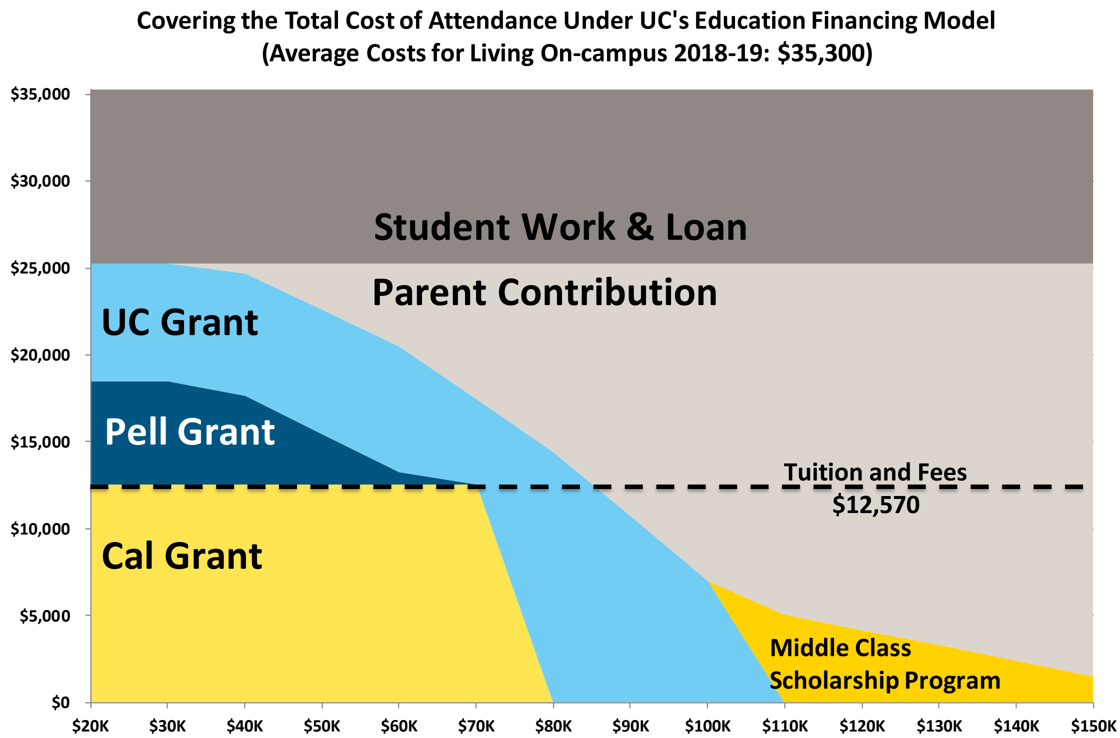
Figure 3: Cumulative Student Loans Debt at Graduation among CA Undergraduates by Ethnicity and Income, 2017-18



EFM Visualization

Figure 4 presents a stylized view of how the EFM works across students by income. The student contribution, also known as “self-help”, does not vary by income, while the parent contribution does. UC awards its own UC Grant to fill in the gaps between State and federal grants in order to be sure the total cost of attendance is covered. All financial aid is awarded to the student. Financial aid that exceeds direct charges from the University (e.g., Tuition, on-campus housing) is provided to the student to help pay the rest of the total cost of attendance.

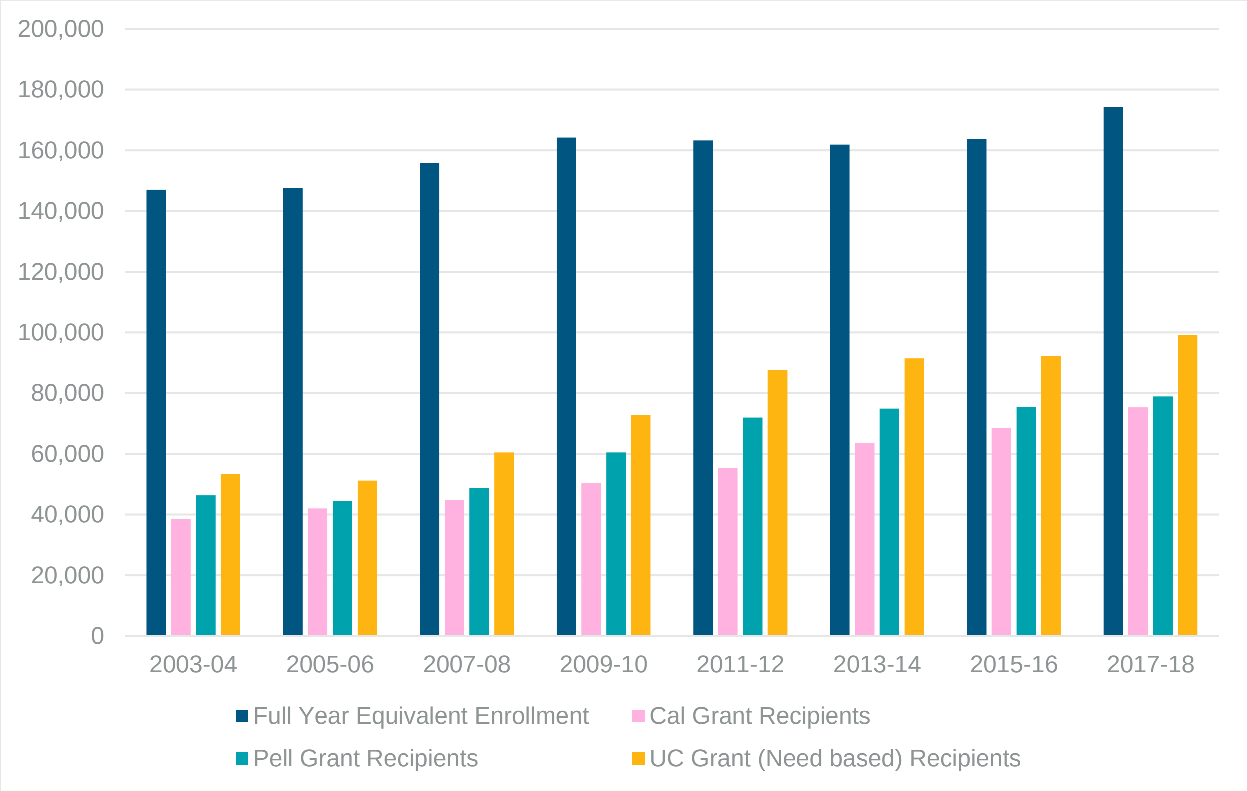
Figure 4: Visualization of Current EFM



Funding Financial Aid at UC

As the University's enrollment has grown over the past ten years, the financial needs of its student body have as well. Figure 5 below shows the growth in California residents over the past fifteen years as well as the proportion who qualify for Federal Pell Grants and the State's Cal Grants, both markers of financial need. Notably, UC's growth in its own financial aid program ——is reflected in the growing proportion of the student body that qualifies for financial aid. In 2003-04, 26 percent of California residents at UC qualified for a Cal Grant, 32 percent for a Pell Grant, and 36 percent received UC need-based grant. In 2017-18, those percentages were 43 percent with Cal Grant, 45 percent with Pell Grant, and 57 percent with UC need-based grant.

Figure 5: Growth in Financial Aid Recipients at UC, CA Residents, 2008-09 to 2017-18



The University of California financial aid offices maximize State and federal sources of financial aid for which its students are eligible, both by requiring students to meet filing deadlines and by helping them through bureaucratic application processes. In addition, the University sets aside one-third of all new Tuition and Student Services Fee (SSF) revenue paid by undergraduate students for need-based financial aid. This practice has been in place since the early 1990's. In addition, Cal Grants are tied to UC's tuition level, so the amount of these two sources of student support rise when Tuition/SSF (or enrollments) rise.

Since both UC grant and Cal Grants are tied to Tuition/SSF, when the University raises tuition, the combined increase in Cal Grant and UC need-based awards is more than enough to offset the higher tuition for those students who receive financial aid. In fact, the combined increase is enough to help offset other elements of the total cost of attendance.

The 33 percent return-to-aid on new Tuition and Student Services Fees has been essential to meeting UC's goal of maintaining a manageable expectation that students work and borrow. This funding mechanism is less effective when there are no Tuition increases. For the last several years, the additional return-to-aid funding was primarily due to the additional return-to-aid generated by nonresident enrollment growth, because those students contribute to the available financial aid, but do not draw on it. Nevertheless, using the EFM's own metrics, the University estimates that, given the amount of aid and need anticipated for 2019-20, the self-help expectation will just exceed the midpoint in the range of working and borrowing that is deemed manageable for the first time in several years by about $300.

Systemwide Tuition/SSF increases make UC more accessible for low-income students than it would be without the increases because they provide aid to help those families cover non-tuition costs. As stressed above, families need to cover the total cost of attendance, not just tuition, and those expenses rise $500 to 600 per year due to inflation. Without the additional financial aid generated with tuition increases, low-income students and their parents see their net costs increase.

Finally, statewide conversations about financial aid and Cal Grant reform have generated interest in creating a debt-free path to college in California. Given the current cost of attendance, available financial aid and parental resources, and UC's own definition of manageable part-time work, this would require an additional investment of $500 million in need-based grant.

Figure 6 below shows the estimated costs of a) reducing the self-help to the midpoint in the range of what UC considers manageable working and borrowing, b) covering all increases in non-tuition costs in 2019-20 with grant for UC's needy students, and c) eliminating the expectation to borrow for all current UC grant recipients. This is intended to provide the Board with a sense of the required investment to help all needy students under the current EFM.

Figure 6: Aggregate Additional Need-based Grant Required to Meet Three Potential Policy Goals

Example Policy Goal	Per Student Need	Needy Students	Aggregate Additional Grant Required
Reduce Self-Help to Midpoint in Manageable Range of Work/Loan	$300	x 100,000 =	$30M
Cover Non-Tuition Costs 2019-20	$500-600	x 100,000 =	$50-60M
Eliminate UC's Loan Expectation	$5,500	x 100,000 =	$550M

Potential fund sources for this scale of additional investment include:

- **Tuition/SSF Increases:** The one-third return-to-aid on any tuition increase, in combination with increased Cal Grant resources for UC students, provides enough additional aid to cover the Tuition/SSF increase and provide for coverage of non-tuition costs. For example, in addition to generating new revenue for instruction, academic support, and other parts of the University's operating budget, a $700 Tuition/SSF increase would also generate approximately the $30M identified in Figure 6 above to reduce self-help by $300 for all needy students.
- **Cal Grant Reform:** The State is considering broad-based reform to the Cal Grant programs, which would benefit students across all segments of higher education. While UC are likely to benefit less than students in Community Colleges under a number of the proposals, these efforts still have the potential to generate enough additional support to make progress on the example policy goals above. (See below for more.)
- **Other External Fund Sources:** Federal Pell Grants have increased in recent years, but the maximum award has not kept pace with inflation. Private fundraising for scholarship support, while important, is not likely to reach the volume required to provide broad-based relief to UC's needy students.

Total Cost of Attendance Workgroup Recommendations

The Total Cost of Attendance Working Group met six times between April and October 2017. As part of its deliberations, the Working Group invited external speakers to provide an outside perspective on the Education Financing Model and reviewed in detail the assumptions and principles underlying the EFM, including alternatives to each of the principles.

The TCOA Working Group reaffirmed the systemwide nature of UC's financial aid policy for undergraduates, as well as its focus on affordability. They acknowledged UC's laudable history in serving low-income students, but offered eight recommendations to improve the EFM. Figure 7 summarizes the eight recommendations. The final report is provided as Attachment 1 and can also be viewed online at: https://regents.universityofcalifornia.edu/regmeet/nov17/a2attach.pdf

Figure 7: TCOA Working Group Recommendations

Recommendation
1: Summer Enrollment and Summer Cal Grant Speeding time-to-graduation is one of the most effective ways to reduce the cost of an undergraduate degree, and students who attend summer school are more likely to graduate in four years. The University should advocate for expanded availability of Cal Grants in summer to support summer enrollment.
2: Multi-Year Financial Aid Plans Direct the Office of the President to work with campuses to expand an innovative UC Santa Barbara pilot program offering four-year financial aid promises to select new freshmen and two-year promises to select new transfers.
3: Improve Cost of Attendance Measurement Improve assessment of the total cost of attendance, reducing exclusive reliance on survey data, especially when campuses may have data on actual direct student expenditures (e.g., campus course materials fees), engaging survey experts in reviewing the UC Cost of Attendance Survey (COAS), and reducing the time between administrations of the COAS.
4: Regental Conversations The Office of the President will present information on the total cost of attendance and student working and borrowing when presenting tuition increase proposals to the Regents. Furthermore, an in-depth discussion of affordability issues outside the context of a tuition increase is recommended. Finally, decisions before the Board which could have an impact on affordability for students, e.g., approving capital projects to build student housing, should be flagged as such by the campuses and the Office of the President.
5: Study Strategies to Reduce Increases in Housing and Healthcare Costs Housing and health insurance are significant drivers of the total cost of attendance and the costs of both of these drivers are partially within the control of the University. The University should identify and disseminate best practices to help campuses limit these cost increases without compromising student success (e.g., eliminating academic space within housing known to contribute to student success). NOTE: This recommendation is not intended to suggest that these costs be subsidized.
6: Create Modest, Progressive Self-Help ***(See below for additional detail.)*** Rather than expect the same from all students in terms of part-time work and student loans, UC should ask less of the most financially needy. This could happen systemwide or through greater use of campus flexibility.

Recommendation
7: Leverage State Support for Middle Class Students to Enhance UC Affordability Acknowledging perceived flaws in the federal need analysis formula, the University should leverage the State of California's Middle Class Scholarship Program.
8: Improve Financial Education The Office of the President will work with campuses—and perhaps intersegmentally with the California State University system and the California Community Colleges system—to expand financial management training for students.

An update on the recommendations was provided to the Special Committee on Basic Needs in September 2019. In addition to the recommendations above, the TCOA Working Group reviewed but did not pursue the following options summarized in Figure 8.

Figure 8: TCOA Working Group Options Reviewed, but Not in Final Recommendations

Selected Issues Reviewed, Not Pursued
Decentralization of University of California Financial Aid. The Working Group reaffirmed the importance of ensuring that costs are not a barrier to undergraduates across all UC campuses and that costs are not a deciding factor when a student is choosing between campuses.
Alternate Calculation of Expected Parent Contribution. The current Regents policy on financial aid specifies that the Free Application for Federal Student Aid (FAFSA) and federal need analysis should be used in its implementation. The Working Group discussed, but did not pursue the option of the University of California developing its own need analysis formula.
Return-to-aid on Charges Beyond Tuition and Fees. The Working Group also looked at the option of building a return-to-aid in other direct charges from the University that could provide funding that would rise as those costs do. This option was rejected as unworkable for a number of reasons.
Adjusting the Return-to-Aid Percentage Annually. The Working Group discussed the potential for adjusting the return-to-aid percentage each year to meet the assessed financial need. Instead, the Working Group agreed to recommend that a full discussion of financial aid and the total cost of attendance be included whenever a proposal to increase tuition and fees is presented to the Regents.

TCOA Workgroup Recommendation 6: Case Study in Trade-Offs

As mentioned above, the current Education Financing Model (EFM) assumes the same self-help, or student contribution from work and borrowing, for all students, regardless of income. The parent contribution is progressive in that it differs based on family resources. The TCOA Working Group wanted to examine how to lower the net cost for the lowest-income families by reducing the student contribution.

The TCOA Recommendation 6 included two options for the Regents to consider: create broad-based progressive student loan and work contributions or facilitate campus flexibility to create targeted reductions in self-help. Note that with either option, the change is made by providing additional financial aid to the targeted students to help cover the total cost of attendance, not by charging these students lower tuition or fees. This introduces both the challenge of identifying additional resources and the challenge of the rationale for targeting this augmented support.

The TCOA discussion underscored a set of key trade-offs that the University faces when considering changes to the EFM. Figure 9 is an updated version of a chart reviewed by the TCOA Working Group that models different approaches to a progressive self-help expectation.

Figure 9: Modeling Progressive Self-Help

Expected Parent Contribution:	0 + Independent	1-2,000	2,001-6,000	6,001-10,000	10,001-20,000	Greater than 20,000	All
Typical Income	**$17,000**	**$42,000**	**$62,000**	**$83,000**	**$111,000**	**$126,000**	**$49,000**
Current Self Help	**$10,000**	**$10,000**	**$10,000**	**$10,000**	**$10,000**	**$10,000**	**$10,000**
CA Residents with UC Grant	44%	19%	15%	9%	10%	2%	100%
Current Dollars Spent	$409M	$98M	$111M	$70M	$78M	$7M	$773M
Model 1: Reduction in Self-Help	**-$500**	**-$500**	**-$500**	**$0**	**$0**	**$0**	**varies**
Model 1 Self-Help	**$9,500**	**$9,500**	**$9,500**	**$10,000**	**$10,000**	**$10,000**	
Cost	$26M	$8M	$8M	$0	$0	$0	$42M
Model 2: Scaled Reduction in Self-Help	**-$1,000**	**-$500**	**-$500**	**$0**	**$0**	**$0**	**varies**
Model 2 Self-Help	**$9,000**	**$9,500**	**$9,500**	**$10,000**	**$10,000**	**$10,000**	
Cost	$52M	$8M	$8M	$0	$0	$0	$68M
Model 3: Cost Neutral Approach	**-$1,000**	**-$500**	**-$500**	**$3,225**	**$3,225**	**$3,225**	**varies**
Model 2 Self-Help	**$9,000**	**$9,500**	**$9,500**	**$13,225**	**$13,225**	**$13,225**	
Cost	$52M	$8M	$8M	($27M)	($33M)	($6M)	$0

Students are grouped by the Expected Parent Contribution in Figure 9, with typical income levels associated with that expectation below. Three models were examined:

- Model 1: lowered the self-help by $500 for the bottom three groups ($42 million total);
- Model 2: lowered self-help in two tiers - $1,000 and $500 ($68 million total); and,
- Model 3: financed Model 2 by increasing self-help for middle-income students.

Two things are apparent in Figure 9 above:

- Since UC enrolls so many financially needy students, the cost of lowering self-help for the lowest-income students is expensive: between $42 million (Model 1) and $68 million (Model 2), neither of which can be funded from University financial aid without tuition increases.
- Furthermore, because there are fewer grant recipients as income increases, lowering the self-help for the lowest-income cannot be offset by raising self-help for middle- and upper-income students without significant increases ($3,225) to those groups (Model 3).

Therefore, without additional resources, it becomes difficult to create broad-based differences in self-help. This may change as the University looks to new ways to fund its financial aid (e.g., cohort tuition) or if there is an increase in outside aid (e.g., Cal Grant reform).

Cal Grant Reform

The Legislature and other state policymakers have been discussing broad-based reform of the state's Cal Grant programs. There are several proposals, but most involve two key features:

- Closing gaps in who qualifies for a Cal Grant, particularly those that do not relate to demonstrated financial need, e.g., age cap on qualifying for the Cal Grant Entitlement program; and,
- Expanding coverage of non-tuition costs. Most Cal Grant dollars cover Tuition and Fees at UC and CSU.

Under the EFM, UC backfills for any “missing” Cal Grants by covering tuition for financially needy students. However, if the estimated $240 million in UC need-based grants used to backfill was instead freed up to help with living expenses, it would lower the need to work and borrow for all needy UC students by about $240 million annually.

In 2018, President Napolitano and Chancellor White issued a joint set of priorities for their respective institutions around Cal Grant reform (Attachment 2).

Attachment 1: Total Cost of Attendance Working Group Final Report (November 2017)
Attachment 2: Cal Grant Reform Letter (November 2018)