February 20, 2013

To: Byron Adams, Chair
    Diversity & Equal Opportunity

          Jan Blacher, Chair
          Planning & Budget

          Mindy Marks, Chair
          Undergraduate Admissions

From: Jose Wudka, Chair
       Riverside Division

Re: Review of UC Undergraduate Financial Aid Funding Options

I am forwarding for your expedited review a set of three proposals for revising the method by which UC funds and allocates student financial aid. As detailed in her letter to Council Chair Bob Powell, attached, Provost Dorr requests that the Academic Council provide her with advice on the relative merits of the three approaches. The same three options were distributed to the Chancellors and have been discussed with the Vice Chancellors. BOARS has also been engaged in the discussion of these policy options throughout their development, and will likely have primary responsibility for assessing the overall implications of student financial aid policies for the University.

Please submit your committee response by March 4, 2013.

Enclosure
February 14, 2013

UNIVERSITYWIDE ACADEMIC SENATE CHAIR POWELL

Dear Bob,

As you know, UC’s undergraduate financial aid funding policies and strategies have been discussed by numerous constituent groups, including BOARS, UCAAD, UCEP, and UCPB, over the past few months. Earlier proposals have now been consolidated into three final options, which have been distributed to the Chancellors for their review. I would appreciate input from the Academic Council on these final options and the underlying policy issues they pose by the end of March. To that end I am providing the attached materials for you to share with appropriate Senate Committees and with Senate Division Chairs so that the topic can be discussed at the March 27 meeting of the Academic Council.

Cordially,

Amée Dorr
Provost and Executive Vice President
Academic Affairs

Enclosures (3)

cc:  Academic Senate Vice Chair Jacob
     Academic Senate Executive Director Winnacker
CHANCELLORS

Dear Chancellors:

Over the past few months, discussions have occurred about the appropriate systemwide funding level for UC’s undergraduate financial aid commitment. The attached documents—an Executive Summary along with Detailed Proposals—consolidate previous individual proposals into three options for setting UC’s financial aid funding commitment starting in 2014-15.

We are distributing the options for final input because the University needs a fiscally sustainable roadmap for determining UC’s systemwide funding commitment and the tuition levels that are needed to achieve it. All three options are predicated on revenue from tuition increases for meeting UC’s financial accessibility goals; hence, a tuition freeze would require suspending whatever funding option is adopted until needed tuition increases are reinstated.

The options provide alternatives to the status quo, in which UC would continue its current revenue-driven financial aid strategy of augmenting existing UC grants by an amount equal to 33% of new systemwide undergraduate tuition and fee revenue. Current funding is used for grants to students from lower- and middle-income families. In addition, UC provides a commitment to cover systemwide tuition and fees for students from lower-income families under the Blue and Gold Opportunity Plan, and has provided one-time grants to cover some or all of a given tuition increase for students from middle-income families.

All three options provide for an expanded commitment to students from middle-income families with incomes from $80,000 to $120,000, a more comprehensive assessment of parental wealth to capture resources not recognized under the federal need analysis methodology currently used, and the application of a UCOP corporate fundraising effort to UC’s systemwide financial aid commitment.

The option differences pose three key policy issues:

- **Alignment of funding strategy**: Options A and B set tuition levels to generate the funding needed to achieve UC’s financial aid commitment. Option C (along with the status quo) would continue a revenue-driven return-to-aid approach that is not directly tied to UC’s financial accessibility goals.
• **Manageable debt:** Option A continues to use UC’s existing benchmark for “manageable” debt based on a 10-year loan repayment term. Option B adopts a revised benchmark for UC’s financial accessibility goals that leads to significantly higher expectations for student borrowing by assuming a 15-year repayment plan.

• **Who pays – lower- and middle-income families vs. higher-income families:** Option A provides the greatest amount of grant support to students from lower-income families and thus, given that tuition will remain the primary source of funding for UC’s systemwide financial aid funding needs, requires the highest “sticker price” tuition levels paid by students from higher income families. The other options, including the status quo, provide less grant support to students from lower-income families and thus require lower tuition levels paid by full-paying students from higher-income families.

We are distributing these documents and seeking input from a broad range of constituent groups – including campus administrators, students, and faculty – during February. We then plan to place this topic on the agenda of the March meeting of the Council of Chancellors so that we can hear your preference for which option UC should adopt as its guiding financial aid funding strategy and your input on the key issues outlined above.

Cordially,

Nathan Brostrom  
Executive Vice President  
Business Operations

Aimée Dorr  
Provost and Executive Vice President  
Academic Affairs

Attachments

cc: President Yudof
UNIVERSITY OF CALIFORNIA UNDERGRADUATE FINANCIAL AID FUNDING OPTIONS:
EXECUTIVE SUMMARY

OVERVIEW OF FUNDING ISSUE

Over the past few months, UC has undertaken a review of its undergraduate financial aid strategy. There has been broad consensus that the fundamental goal and supporting strategy underlying UC’s systemwide aid program are sound and should be maintained:

- **Goal:** Ensure that UC is financially accessible to undergraduates at every income level, consistent with UC’s mission to serve all academically eligible CA residents.

- **Strategy:** UC should fund, allocate, and award aid so that every UC undergraduate can address the entire cost of attendance – not just tuition – through a partnership involving manageable contributions from parents, manageable student work and borrowing, and grants from federal, state, and institutional aid programs.

Currently, UC’s allocation of systemwide aid to campuses and campus aid awards to individual students are well aligned with UC’s financial aid goals. However, questions remain about UC’s overall funding commitment. The current practice has been to augment existing funding by 33% of any new tuition and fee revenue. This commitment has allowed UC to keep students’ expected contribution from work and student loans (“self-help”) at levels that, by UC’s current standards, are relatively low, leading some to argue that UC is “overfunding” its undergraduate aid program. However, projections indicate that UC’s financial aid programs will be underfunded in the future relative to those standards.

To bring UC’s funding commitment in line with its policy goals, UC can commit additional funds to financial aid or adopt a different, less ambitious standard (i.e., expect students from low- and middle-income families to contribute more in the long term). As long as tuition remains the primary fund source for UC grants, financial aid funding will rise and fall with tuition, creating a tradeoff between a higher “sticker price” paid by higher-income families to keep net costs lower for lower- and middle-income families vs. a lower “sticker price” that generates less funding and hence increases the net cost for lower- and middle-income families.

Based on feedback over the past few months from a wide range of constituent groups, this document consolidates previous individual proposals into three options for setting UC’s financial aid funding commitment starting in 2014-15.

COMMON FEATURES OF OPTIONS

There was widespread agreement on a number of features, which have been incorporated into all three options. They include the following:

- **Alignment with agreed-upon goals/principles.** All options reflect UC’s historical financial aid goals/principles, which have been generally reaffirmed by multiple constituent groups and are reproduced on page three of the attached expanded document titled *University of California Undergraduate Financial Aid Funding Options: Detailed Proposals*.

- **Increased Commitment to Students from Middle-Income Families (Blue and Gold “Light”).** Every option would extend the Blue and Gold Opportunity Plan, which currently covers 100% of systemwide tuition and fees for needy families earning up to $80,000, to also cover 50% of...
systemwide tuition and fees for needy middle-income families with incomes between $80,000 and $120,000. Currently, students from these middle-income families only receive a one-time grant for any annual tuition increase (a “tuition holiday”), which effectively delays the impact of the increase for one year.

- **Improved Assessment of Parent Resources.** Under all options UC would adopt a methodology to determine how much UC should expect parents to contribute that involves collecting and using information on aspects of a family’s wealth not currently captured on the federal FAFSA in determining how much UC should expect parents to contribute.

- **Commitment from UCOP-led Corporate Fundraising.** All options reflect a $5 million annual UCOP expenditure (beginning 2014-15) towards UC’s financial aid funding commitment with funds coming from a UCOP corporate fundraising effort or, if needed to cover a fundraising shortfall, a payout from the President’s endowment fund.

- **Financial aid commitment independent of operating budget.** Under all options, funding for the operating budget does not compete with funding for undergraduate financial aid. Rather, the funding levels required for UC’s operating budget needs and for UC’s systemwide financial aid program are independently determined and then added together to determine the overall tuition level that will meet both needs.

- **No change in method for determining campus contribution to funding commitment.** Under all options, the distribution of systemwide financial aid funds across campuses will continue to reflect the projected student need at each campus and funding streams principles.

**DISTINCTIVE FEATURES OF OPTIONS**

The three options incorporate all of the above common features but vary in the size of UC’s systemwide funding commitment to UC grants. They also vary in whether the funding level is committed to specific outcomes related to UC’s policy goals or to a specified level of revenue each year.

**Outcome-Driven Options (tuition levels fluctuate to meet self-help benchmark)**

**Option A: Fund self-help at the midpoint of the current manageable range.** Option A would align UC’s funding commitment to the current Education Financing Model (EFM) benchmark for the amount all students are expected to contribute from work and borrowing – i.e., the midpoint of the current “manageable” self-help range. The benchmark for work is 13 hours per week during the academic year (plus full-time work over summers). The benchmark for borrowing is based on a level that results in loan repayments requiring 7% of average post-UC earnings, assuming a standard 10-year repayment period.

**Option B: Fund self-help at the midpoint of a redefined “manageable” student debt range that requires a higher self-help from students.** Option B would align UC’s funding commitment to a revised benchmark for the student’s self-help contribution from borrowing based on an extended loan repayment period. Under the revised benchmark, students would be expected to borrow at higher levels but their loan repayments would be kept at 7% of average post-UC earnings by assuming a 15-year repayment period. (Amortizing student loan debt over a longer period permits, in effect, higher debt levels and hence less aid from UC compared to Option A.)
Revenue-Driven Option (self-help levels fluctuate in response to specified tuition levels)

Option C: Commit an amount equivalent to a 33% return-to-aid plus $5 million in revenue from UCOP corporate fundraising. Option C would maintain UC’s funding commitment at the current University Student Aid Program (USAP) level augmented by 33% of any new systemwide tuition in the future, plus a $5 million commitment of revenue derived from UCOP’s corporate fundraising efforts. This option would allow self-help to fluctuate from year to year in recognition that UC’s current policy standard for self-help is a range. The midpoint of the current manageable range would serve as an aspirational goal, but UC’s policy commitment would be to keep self-help below the top of the current manageable range (i.e., below 20 hours per week of work during the academic year plus loan repayments requiring 9% of average post-UC earnings, assuming a 10-year repayment period).

IMPACT OF COMMON FEATURES

- **Blue and Gold “Light”:** The primary impact of guaranteeing that California families with financial need and incomes from $80K to $120K would pay only half of systemwide tuition and fees is a clearer public message about middle-income aid. There are an estimated 25,000 undergraduates with parent incomes between $80,000 and $120,000. Approximately 6,600 of these would be covered by the Blue and Gold “Light” extension instead of the current “fee holiday” program which provides one-time grants covering tuition increases for a year. About 8,400 would be eligible for and continue to receive regular UC grants. The other 10,000, who do not have enough financial need to be eligible for the “fee holiday” grants, would remain ineligible for UC grant support.

  The cost of the larger grants would be about $21 million. The tuition level that would need to be charged to fund the cost varies by option but would be less than $200 in all cases. If not funded from an increase in tuition, the cost would result in self-help levels rising by about $175.

- **Refined Expected Parent Contributions:** A more refined approach to evaluating family wealth would reduce expected parent contributions for some students (e.g., families with few assets) while increasing contributions from others (e.g., families with high assets). For purposes of this analysis, we assume that the refined methodology would be applied to new students starting in 2014-15 and would increase aggregate parent contributions by up to $40M over time. The net increase in parent contributions would reduce the need for UC aid, allowing for tuition levels that would be from $200 to $300 lower in 2017-18 than would otherwise be the case or, alternatively, self-help levels that were $275 lower than the status quo.

- **Corporate Fund Raising:** The $5M expected from UCOP corporate fundraising for systemwide financial aid would allow tuition levels to be about $30 lower than otherwise (under Options A or B) or self-help levels about $65 lower than otherwise (under Option C).

IMPACT OF THE OPTION VARIATIONS

Figures 1, 2, and 3 below illustrate the impact of each option and the status quo (Option 0) on the average net cost (total cost of attendance less gift aid) for students from lower-, middle-, and higher-income families. The status-quo would maintain the current revenue-driven, 33% return-to-aid approach with the existing Blue and Gold Opportunity Program for students from families with income less than $80,000 along with the current “fee holiday” program. In general, compared to the status quo:
• Option A reduces the net cost for students from low- and middle-income families while increasing the net cost for students from higher-income families.

• Option B increases the net cost for students from low-income families while reducing the net cost for students from middle- and higher-income families.

• The impact of Option C is less predictable since it, like the status quo, is driven by revenue and not policy. Under both the status quo and Option C, self-help levels of students from lower-income families would rise above UC’s benchmark over time, while higher-income families would benefit by capping return-to-aid at 33%. As with Options A and B, middle-income families would benefit from the new Blue and Gold “Light.”

**Impact on students from lower-income families:** Figure 1 shows the net cost of attendance for a typical student with a parent income of $50,000 in 2013-14. The net cost is the total cost of attendance (tuition and fees plus living expenses) less the student’s grant awards and represents the sum of the student’s expected parent and self-help contributions. This student’s expected parent contribution is $2,000 and does not vary across options. However, the student’s self-help contribution and hence the student’s net cost do vary across options. Most notably, in 2014-15, Option B raises the midpoint self-help benchmark, and hence net costs, by $1,737 over the current benchmark used in Option A. The difference persists over time, increasing to $1,905 by 2017-18 as both benchmarks rise slowly with projected increases in wages. Net costs grow under both the status quo (Option 0) and Option C as the 33% return-to-aid cap results in increasing funding shortfalls.

<table>
<thead>
<tr>
<th>Year</th>
<th>Option 0</th>
<th>Option A</th>
<th>Option B</th>
<th>Option C</th>
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<td>$12,721</td>
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<tr>
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**Figure 1. Projected Net Cost for $50,000 Parent Income**

**Impact on students from middle-income families:** Figure 2 shows the net cost of attendance for a typical student with a parent income of $100,000 in 2013-14. The student has the same total cost of attendance as the student from a lower-income family from Figure 1, but has higher net costs due to a higher expected parent contribution. For this hypothetical student the expected parent contribution is $16,000. Under all three options, the student would benefit from the Blue and Gold “light” expansion

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1 The increase in the net cost of Option B could be smoothed out by phasing in the assumption that students would extend their repayment period from 10 to 15 years. For instance, under a five-year phase-in with a repayment period of 11 years in the first year, the 2014-15 net cost of Option B could be reduced from $15,082 to $13,779, thereby reducing the 2014-15 difference in net cost between Option A and Option B from $1,737 to $434.
and receive a grant equal to half of systemwide tuition and fees (rather than a “fee holiday” grant equal to half of the tuition and fee increase), thereby reducing the net cost of attending UC by more than $4,000 over the status quo. Since the student would still be responsible for half of tuition charges, the net cost would vary with total tuition levels, which are highest under Option A.

![Figure 2. Projected Net Cost for $100,000 Parent Income](image)

<table>
<thead>
<tr>
<th>Year</th>
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<th>Option B</th>
<th>Option C</th>
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</thead>
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<td>$25,721</td>
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<tr>
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**Impact on students from higher-income families:** Figure 3 shows the cost of attendance for a typical student with a parent income of $150,000. This student does not have enough financial need to be eligible for any grant assistance and thus under all options pays the full costs of attending UC from parental resources along with contributions from work and borrowing. The total cost of attendance increases over time as non-tuition costs increase with inflation and tuition charges increase to produce needed revenue for UC’s operating budget and financial aid commitment. The variation in costs across options reflects the differences in total tuition (the “sticker price”) needed to meet the financial aid commitment under each option. They are highest under Option A since tuition levels need to be higher to pay for the larger grant assistance to students from lower-income families provided under this option.

![Figure 3. Projected Net Cost for $150,000 Parent Income](image)

<table>
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<th>Option B</th>
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<td>2017</td>
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<td>$37,140</td>
<td>$35,724</td>
<td>$35,988</td>
</tr>
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</table>
IMPACT OF POSSIBLE TUITION FREEZE

All of the options are predicated on the ability to raise tuition annually to help fund UC’s systemwide financial accessibility commitment. If UC is subject to a tuition freeze in any year, UC’s funding strategy for financial aid would need to be suspended until such time as a tuition increase could be enacted. The suspension would involve the following:

- A delay in the implementation of the first-year of the Blue and Gold “Light” to a year with a tuition increase so that this expanded commitment to middle-income students would help mitigate the impact of a necessary tuition increase.

- A temporary increase in self-help expectations of lower-income students as non-tuition expenses continue to grow with no corresponding new tuition revenue for UC grants. For example, self-help would increase by $900 in 2014-15 to cover an estimated $900 increase in non-tuition expenses (e.g., health insurance, rent, transportation, etc.).

- No change in plans to implement a more comprehensive assessment of parental wealth and proceed with a UCOP corporate fundraising effort.

When tuition increases are resumed, the financial accessibility commitment and associated tuition level needed to fund it would be reinstated in accord with whatever funding option the University adopts.

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2 In contrast, based on the tuition levels assumed in this paper, self-help would increase in 2014-15 by only $624 under Option A, by $2,361 under Option B if the new 15-year loan repayment assumption were fully implemented in 2014 (or by $1,058 if the new 15-year loan repayment assumption under Option B were phased in over five years), or by $757 under Option C.
UNIVERSITY OF CALIFORNIA UNDERGRADUATE FINANCIAL AID FUNDING OPTIONS:
DETAILED PROPOSALS

OVERVIEW OF FUNDING ISSUE

The University of California Financial Aid Policy, approved by the Regents in 1994, establishes financial accessibility as UC’s overarching goal for its undergraduate financial aid programs. Specifically, undergraduates at every income level should be able to cover the total in-state cost of attendance through a combination of (a) manageable contributions from students and parents, and (b) grant support from federal, state, and University programs. This goal has been broadly reaffirmed across multiple constituency groups.

The manageability of expected contributions from parents and students is expressed through UC’s Education Financing Model (EFM), which implements UC’s undergraduate financial aid policy goals. Under EFM, parents are expected to contribute according to their “ability to pay,” as determined by the federal need analysis methodology used for federal and state aid programs. In addition, all students are expected to contribute a “self-help” amount from part-time work and from borrowing.

- A “manageable” level of work should not impede a student’s academic performance or progress to a degree. Under EFM, it is defined as a range of part-time work during the academic year – 6 to 20 hours per week – along with full-time work over the summer.

- A “manageable” level of borrowing should result in loan repayments after graduation that reflect loan industry standards for the percent of income to be devoted to student loan repayment. Under EFM, it is defined as a range from 5% to 9% of anticipated average post-graduate earnings to be used for student loan payments.

The “benchmark” goal for self-help is the combined expected contribution represented by the midpoint of each range: 13 hours of work during the academic year, plus borrowing at a level that can be repaid by 7% of anticipated post-graduate earnings.

Although this benchmark goal is used in both the distribution of financial aid funding to campuses and the awarding of aid to individual students, it has not been used to determine UC’s overall systemwide funding level for financial aid. Rather, UC has used a specified percentage of systemwide tuition and fee revenue as a revenue-driven proxy for determining its financial aid funding commitment. The current practice is to augment UC’s University Student Aid Program (USAP) by a 33% return-to-aid from any new undergraduate systemwide tuition and fee revenue.

In recent years, this 33% return-to-aid practice has allowed UC to keep students’ expected self-help at levels that are below UC’s current midpoint benchmark. In these times of budget constraints, this has raised questions about whether the 33% return-to-aid strategy has been “overfunding” UC’s financial aid programs. However, projections indicate that a 33% return-to-aid will lead to rising self-help levels that will increasingly exceed EFM’s current midpoint benchmark in the future. This has raised concerns that UC’s financial aid programs will be increasingly “underfunded” in the future relative to its financial accessibility goals.

To bring UC’s funding commitment in line with its policy goals, UC can either adjust its funding level for financial aid or adjust its benchmark for financial accessibility.
Adjust funding level: As long as tuition remains the primary fund source for UC grants, increasing financial aid funding will require higher tuition levels. Similarly, reducing financial aid funding will allow lower tuition levels. The tradeoff is a higher “sticker price” paid by students from higher-income families to keep net costs lower for lower- and middle-income families vs. a lower “sticker price” that limits funding for financial aid and thus increases the net cost for lower- and middle-income families.

Reassess financial accessibility benchmarks: More of the burden for covering the cost of attending UC could be shifted to parents and/or students. Such a shift could reflect an explicit policy rationale for higher student and/or parent expected contributions or could just reflect limitations on the amount UC is willing to spend on its undergraduate aid program.

Based on feedback from a wide range of constituent groups, this document consolidates a variety of specific proposals into three comprehensive options. They all incorporate a number of common features that received widespread support. The variation across options is in the progressivity of UC’s tuition levels. Once an option is adopted, implementation would start in 2014-15.

COMMON UNDERLYING ASSUMPTIONS

All three options are premised on the following underlying assumptions. If any of these assumptions are not fulfilled, a revisiting of UC’s financial aid commitment would be needed.

- **Moderate increases in tuition are not expected to influence the enrollment of high-income students, who pay the full sticker price.** The fiscal viability of any tuition policy must maintain the enrollment of students from higher-income families who pay the full sticker price. Underlying each option is the assumption that UC still has room to raise tuition without a significant loss of full paying students. The tuition increases contemplated under any of the three options would still keep UC’s sticker price well below private institution tuition levels. Despite anecdotes of individual students who may opt for higher-cost private or out-of-state institutions, trend data show no reduction in high-income student applications or enrollments. The proportion of students with parent income above $123,000 (in constant dollars) enrolling at UC has remained at about 30% since 2003-04. Indeed, UC is successfully recruiting out-of-state students from higher-income families who are willing and able to pay an extra $23,000 in nonresident tuition.

- **State and federal aid grant programs are expected to remain intact.** The estimated impact of each option is based on best available projections for Pell and Cal Grant awards and assumes no material change in the terms or eligibility requirements of these programs. If funding from these programs is reduced, UC would need to offset the loss with additional UC funding in order to avoid placing a higher burden on low- and middle-income families. If the reductions were major, UC would need to revisit its funding commitment.

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1 The constituent groups providing input have included administrative/budgetary leadership (COVC, Executive Budget Committee, VCPB), students (Student Regents, UCSA), Academic Senate leadership and committees (UCAAAD, BOARS, UCEP, UCPB), Student Affairs (VCSA, Financial Aid Directors), the Education Financing Model Steering Committee, as well as various individuals from campuses.
• **Whatever funding strategy UC adopts, UC must expand its effort to increase awareness of the Blue and Gold Opportunity Program.** Misperceptions about the availability of grant support must not close the door to a UC education for students from lower-income families. UC’s Blue and Gold Opportunity Plan is intended to ensure that the public as a whole – and students from disadvantaged backgrounds in particular – are not deterred from considering UC because of UC’s tuition. Regardless of the financial aid funding option adopted, tuition increases of some magnitude will be required to maintain the quality of a UC education. Hence, it is imperative that UC improve communication about its Blue and Gold commitment to counter the misperception that a higher sticker price increases costs for low- and middle-income families when scholarship and grant awards are taken into account.

**COMMON FEATURES OF OPTIONS**

The following are features that are common to each of the three financial aid funding options (Options A, B, and C) presented in this document.

*Alignment with agreed-upon goals/principles*

In the consultative process, constituent groups generally reaffirmed the goals/principles that were listed in the September 4 overview document titled *Overview of UC Undergraduate Financial Aid Reform Initiative*. That list appears below. The last principle addressing “balance” has been recast to clarify that the balance sought is not between funding needed for the operating budget vs. funding needed for financial aid. Rather the “balance” is between the sticker price that higher-income families pay vs. the net cost for students from lower-income families. This balance recognizes that tuition revenue will remain the primary source of funds for UC’s financial aid. As a result, funding options that require more UC grant assistance will also require higher tuition.

**UC Undergraduate Financial Aid Goals/Principles**

1. **Financial access:** Enable every undergraduate to cover the full cost of attending any UC campus without an unmanageable burden
2. **Student choice:** Enable students to choose among the variety of UC educational experiences (e.g., choice of campus, education abroad) without cost being a primary influence
3. **Offset tuition increases:** Allow UC to increase tuition revenue while protecting neediest students
4. **Facilitate low-income student enrollment:** Avoid any penalty (e.g., less net tuition revenue for operating expenses) for campuses that enroll students from low-income families
5. **Clear message:** Send a strong public message that UC is affordable to all families
6. **Leverage outside aid:** Minimize UC expenditures on aid by maximizing external (e.g., state, federal, or private) sources of aid
7. **Competitiveness:** Enable campuses to provide competitive awards to recruit and enroll desired students
8. **Balanced funding:** Balance the needs of students at all income levels, recognizing that as long as tuition revenue is the primary fund source for UC financial aid, the financial aid needs of students from lower- and middle-income families must be weighed against the desire to keep UC’s sticker price low for all students
Increased commitment to middle-income families

This feature, which is incorporated into all three options, responds to the widespread consensus that UC needs to address the perception that UC’s costs overly burden middle-income families. Some of the concern about middle-income families derives from the decline in the proportion of middle-income students at UC. For instance, between 2002-03 and 2009-10, the percentage of undergraduates with parent incomes between $99,000 and $149,000 (in constant dollars) declined from 21% to 17%. Although this decline likely reflects a decline in the percentage of middle-income families statewide, concern persists that UC expects too much from middle-income parents. For instance, the median contribution expected from parents peaks at 17% of income for parents with incomes between $90,000 and $110,000. Families cannot be expected to make contributions at this level just from current income. Rather, the contribution level presumes that middle-income families have either saved or will borrow to meet their children’s educational expenses.

Concern about the costs faced by middle-income families is heightened whenever UC raises tuition. To have maximum impact, the implementation of any new benefit to middle-income families should occur in a year with a tuition increase so that it can help mitigate the impact of the increase. This document assumes that annual tuition increases will be needed and enacted for the next five years. If increases do not occur, the implementation of any proposal to enhance support of middle-income families should be delayed to a year where a tuition increase is actually enacted.

A number of middle-income aid strategies are possible. Berkeley, for instance, is using campus funds to cap the amount middle-income families are expected to contribute. The proposal described here ties additional support for middle-income families to UC’s systemwide message about systemwide tuition and fees – the current Blue and Gold Opportunity Plan. In doing so, the proposal builds on an existing “brand” rather than adding an entirely new program. It would also distinguish UC’s systemwide effort from programs that campuses may implement in addition to the systemwide plan. Limiting eligibility to students with financial need limits the incremental cost of the program.

The current Blue and Gold Plan signals that financially needy students with family incomes below $80,000 should not be deterred from considering UC because of UC’s systemwide tuition and fee levels. Such students are ensured that their tuition and fees will be covered with some kind of scholarship or grant assistance. The options proposed here would expand the Plan so that financially needy students with parent incomes between $80,000 and $120,000 would know that half of their systemwide tuition and fees would be covered by some kind of scholarship or grant support.

This expansion – referred to as the Blue and Gold “Light” – would replace the current Middle-Income Tuition Grant program that provides one-time grants covering the tuition increase in a particular year to families with incomes up to $120,000 with financial need (the so-called “fee holiday”). Rather than providing financially needy students whose parent incomes are between $80,000 and $120,000 with grant funds to cover the systemwide tuition increase in that year, UC would provide these students with grants to cover at least half of their total systemwide tuition and fees every year².

Improved assessment of family resources when targeting aid

Currently, UC uses federal need analysis methodology, based on data collected on the Free Application for Federal Student Aid (the FAFSA), to calculate expected parent contributions. This approach implicitly

² If a student’s financial need is less than half of systemwide tuition and fees, the commitment is to provide scholarship or grant assistance up to the student’s financial need.
assumes that the federal methodology is a “reasonable” measure of a family’s ability to pay for their student’s education. However, to minimize the complexity and amount of information collected on the FAFSA, the federal methodology is unable to capture all the financial resources a family may have. In particular, certain assets (those from home equity, small business ownership, etc.) and certain income (e.g., income of the non-custodial parent) are not considered by the methodology. It is likely that such overlooked resources may contribute to the finding that a substantial number of UC grant recipients in 2011-12 showed no evidence of borrowing, working, or receiving any other scholarship award.

Many private colleges and a growing number of public flagship universities use a College Board alternate to federal need analysis called “institutional methodology” (IM) in evaluating eligibility for institutional grant funds. (The federal methodology is required for awarding federal aid and Cal Grants). IM takes into account a more comprehensive range of financial resources based on much more extensive information collected on a form separate from the FAFSA. Other institutions have established their own alternative forms and methodology to improve upon federal need analysis.

It is proposed under all three of the options that UC either adopt IM or develop a UC-specific alternative methodology for determining a “reasonable” measure of a family’s “ability to pay.” UC Financial Aid Directors have begun exploring alternative formulas, along with the most cost-effective way to collect and incorporate any additional information needed from families. A high priority is to avoid charging a fee for the submission of any new aid application forms.

A more comprehensive assessment of parental resources will likely create additional workload – both for families, who will need to provide and document more financial information, and for campus financial aid offices, who will need to process and evaluate the additional information provided. Although the amount of workload is not yet known, it will be one factor in determining which specific methodology is adopted by UC.

**Expected contribution from UCOP-led corporate fundraising**

Historically, the only fund source other than systemwide tuition and the Student Services Fee that has been used to meet UC’s systemwide minimum grant commitment has been $52 million in state specific funds for need-based financial aid, which is 8% of the $633 million minimum grant commitment for 2012-13. Identifying new fund sources for financial aid would either reduce the amount of tuition required for aid (and hence reduce UC’s “sticker price”) or allow UC to expand its aid program. To that end, UCOP has initiated a corporate fundraising campaign to generate funding for financial aid.

Included in all three options is the expectation that UCOP’s corporate fundraising effort for scholarships will generate $5 million per year to be used towards UC’s systemwide grant commitment, starting in 2014-15. If UCOP’s fundraising efforts yield more than $5 million in a given year, the excess would be used to build the corpus of a fund functioning as an endowment (FFE) to extend the length of time funds will be available for systemwide need-based grants. If UCOP’s fundraising efforts fall short of $5 million in any year, the difference will be made up from any balance in the FFE or from a payout from the President’s endowment fund.

Under Options A and B, the $5 million replaces tuition revenue that would otherwise be needed to meet UC’s specified financial aid funding commitment under these options. If the $5 million were unavailable, UC would have to backfill with additional tuition revenue from higher tuition charges. Under Option C,

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3 Since 2006, the required 25% return-to-aid from newly established or adjusted campus-based fees has also been applied to UC’s systemwide commitment. This amounted to $8 million in 2012-13.
the $5 million provides UC grants on top of the tuition revenue specified as return-to-aid. If the supplemental $5 million were unavailable, UC would not backfill with additional tuition revenue. Rather, the result would be $5 million less grant funding and thus higher student self-help levels.

**Financial aid commitment independent of operating budget.**

Under all three options, UC determines its funding needs for the operating budget separately from its funding needs for undergraduate financial aid. Each option assumes that moderate (5%) increases in revenue from mandatory systemwide charges (i.e., tuition and the Student Services Fee) will be needed for UC’s operating budget expenditures in each year from 2013-14 through 2017-18. In addition, each option calculates a separate amount of tuition revenue that will be needed to meet the financial aid funding level specified under the option. The two funding needs are combined to determine the overall level of mandatory systemwide charges required for both. This is in contrast to current practice where an overall tuition level is negotiated first, a specified return-to-aid is applied, and the remainder made available for the operating budget.

If tuition levels cannot be adjusted to meet the funding needs for either the operating or financial aid budget (as might happen under a tuition freeze), the independence of the operating and financial aid budgets would still be maintained. Funds for the operating budget would not be transferred to meet any shortfall in the financial aid budget, or vice versa. Rather, UC’s funding commitment would temporarily be suspended until future tuition increases could restore its level. See the section titled “Impact of Possible Tuition Freeze” at the end of this document for more detail.

**No change in method for determining campus contribution to funding commitment.**

The strategy for determining the total systemwide amount of funding needed for undergraduate financial aid will not affect the method for distributing that funding across campuses. As now, each campus will receive the share of total funding it needs, as calculated by the EFM methodology, to make grant awards that will maintain a common self-help level across students throughout the system. Likewise, the strategy for determining the size of the systemwide funding commitment will not affect the method for calculating how much campuses contribute to the systemwide commitment for undergraduate grant funding. Each campus will continue to contribute to the systemwide pool a common percentage of their undergraduate tuition revenue according to the funding streams methodology.  

**DISTINCTIVE FEATURES OF OPTIONS**

The following describes how the three options differ from one another.

**Option A: Fund self-help at the midpoint of the current benchmark manageable range**

*Set UC’s minimum grant commitment based on the amount needed to achieve a self-help level at the midpoint of the current “manageable” range.*

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4 Although the size of the campus contributions will equal a common percentage of systemwide mandatory charges (i.e., tuition plus Student Services Fee revenue), the actual funds contributed to the systemwide financial aid pool may include state general funds to avoid transferring tuition revenue across campuses.
This option would bring the funding level for UC’s systemwide minimum commitment for undergraduate UC grants into alignment with UC’s financial aid goals. Funding for UC’s systemwide commitment would be determined by the amount needed to produce the midpoint manageable self-help level associated with UC’s financial accessibility goals as defined by the Education Financing Model. This amount increases as tuition and fees rise, but also increases as non-tuition costs (room and board, transportation, etc.) rise. In addition, the amount of UC aid needed increases if cuts are made to federal or state grant programs or if the resources of UC families fall due to economic conditions. With UC’s financial aid funding levels sensitive to all these factors, there would no longer be any “overfunding” or “underfunding” of UC’s financial accessibility goals. Self-help levels would no longer fall below the midpoint in some years and exceed the midpoint in other years.

This option would also align with the existing way systemwide funds are distributed across campuses and are awarded to individual students. Individual student needs and individual campus needs are already based on achieving a common self-help level.

Funding generated under this option would be sufficient to allow UC to mitigate the impact of tuition increases on lower- and middle-income families by fully covering the increases for all grant-eligible students and all financially needy students with parent incomes less than $80,000 who are eligible for UC’s Blue and Gold Opportunity Plan. In addition, UC would cover half of any tuition increase for other financially needy students with incomes between $80,000 and $120,000 who are eligible for UC’s expanded Blue and Gold Opportunity Plan (the Blue and Gold “Light”).

Option B: Redefine “manageable” student debt / expect higher student self-help

Fund at the mid-point of the “manageable” range but reset the midpoint benchmark for “manageable” student debt by assuming borrowers repay over 15 years.

Currently, manageable student debt levels are based on the percent of postgraduate earning required to meet loan repayments under a standard 10-year repayment plan. The “manageable” goal, based on loan industry standards, is to keep repayments to 7% of average anticipated postgraduate earnings. The projected 10-year earnings average for UC borrowers during their loan repayment term is $53,000 for students graduating in 2011-12 (based on an estimated starting salary of approximately $44,000 with annual increases of 4% to reflect inflation as well as opportunities for promotion and salary increases). Thus their average “manageable” repayment amount is $309 per month.

Various alternative repayment plans to the standard 10-year term are available, depending on debt levels and other eligibility requirements. For federal loans, they include extended repayment, graduated repayment, income-based repayment, and other individual (e.g., “alternative”) arrangements negotiated with the loan processors. Standard extended repayment plans are not generally available for private loans, but borrowers may be able to negotiate individual arrangements if they contact the lender. Overall, as debt levels have increased nationally, borrowers have increasingly taken advantage of options for spreading their repayment over a longer period of time.

Under this option, the expectation that students would repay their loans over 10 years would be replaced by the expectation that students would repay over 15 years in the calculation of manageable debt. Whereas a $309 repayment amount will pay off a debt of $27,660 over a 10-year period, the same monthly repayment amount will pay off a debt of $35,743 over a 15-year period. If “manageability” is redefined in terms of a 15-year repayment period, the midpoint for manageable student borrowing would increase from an annual borrowing amount of $6,734 in 2013-14 to $8,500. Although the
expected total amount borrowers would repay would increase, their expected monthly repayment amounts would stay the same, but would be over a longer period of time.

The increased borrowing under this option would push more students into supplementing their federal loans with federal parent educational (PLUS) loans or private loans. Such supplemental loans are generally unavailable to parents or students with poor credit ratings and who cannot find a creditworthy cosigner.

**Option C: Commit to a 33% return-to-aid plus expect $5 million from UCOP fundraising**

Establish UC’s systemwide minimum grant commitment by an amount equivalent to a 33% return-to-aid from new systemwide tuition and fees plus expect $5 million of revenue from UCOP corporate fundraising.

UC’s systemwide funding commitment for undergraduate financial aid would be current UC grant funding levels augmented by an amount equivalent to a 33% return-to-aid from new systemwide tuition and fees along with an expected $5 million of revenue from UCOP’s corporate fund raising effort. This option would allow self-help to fluctuate from year to year in recognition that UC’s current policy standard for self-help is a range. The midpoint of the current manageable range would serve as an aspirational goal, but UC’s policy commitment would be to keep self-help below the top of the current manageable range (i.e., 20 hours per week of work during the academic year plus debt levels resulting in loan repayment amounts equal to 9% of average post-graduate earnings, assuming a 10-year repayment period). Any expected self-help level below the top of the range would be considered “manageable” and meeting UC’s financial accessibility goal.

The return-to-aid calculation would be easily understood and would align with past practice but would not align with the established aspirational goal for self-help manageability. Projections indicate that the funding available under this approach would result in self-help levels rising to well above the midpoint aspirational goal. However, they would still fall below the range maximum.

Under this option, the $5 million expected revenue from UCOP’s corporate fundraising efforts would be on top of the 33% return-to-aid.

**IMPACT OF COMMON FEATURES**

**Increased commitment to middle-income families**

The primary impact of the implementation of the Blue and Gold “Light” expansion of the current Blue and Gold Opportunity Plan will be a clearer public message about UC’s financial aid commitment to financially needy families with income from $80,000 to $120,000. UC will be able to assure these families that half of their systemwide tuition and fees will be covered with grants or scholarships regardless of any tuition increase.

In the first year of implementation, the Blue and Gold “Light” will increase the size of the grants received by many students from middle-income families. For instance, if a $969 tuition increase were implemented in 2014-15 (as assumed under the status quo), the so-called “fee holiday” grant would be the $969 tuition increase. However, under the Blue and Gold “Light” commitment, eligible students would receive half of full tuition (or $6,946.50 of the $13,893 level of systemwide tuition and Student
Services Fee simulated for 2014-15). In subsequent years, grants would increase only by 50% of the tuition/fee increase that year.

However, not all students with parental income from $80,000 to $120,000 will be replacing their “fee holiday” grants with the Blue and Gold “Light” commitment. Of the estimated 25,000 undergraduates with parent incomes from $80,000 to $120,000, approximately 6,600 would be covered by the Blue and Gold “Light” extension instead of the current “fee holiday” program, which provides one-time grants covering tuition increases for a year. About 8,400 (e.g., those from families with multiple children in college and few assets) would be eligible for and continue to receive regular UC grants. The other 10,000, who do not have enough financial need to be eligible for the “fee holiday” grants (e.g., they come from a small family with only one child in college, and lots of assets), would remain ineligible for UC grant support.

Table 1 compares the existing Blue and Gold Opportunity Plan and existing “fee holiday” program to the Blue and Gold “Light” expansion.

<table>
<thead>
<tr>
<th>Table 1 Comparison of Eligibility and Benefits of Blue and Gold “Light” Expansion to Existing Blue and Gold Opportunity Plan and Fee Holiday Program</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Blue and Gold</strong></td>
</tr>
<tr>
<td><strong>Parent income range</strong>&lt;br&gt;&lt;br&gt;</td>
</tr>
<tr>
<td><strong>Financial need requirement</strong></td>
</tr>
<tr>
<td><strong>Grant commitment</strong>&lt;br&gt;&lt;br&gt;</td>
</tr>
<tr>
<td><strong>Size of maximum commitment in 2014-15</strong>&lt;br&gt;(^5)</td>
</tr>
</tbody>
</table>

If no other changes are made to the status quo, the incremental cost of the Blue and Gold “Light” would be about $21 million. This reflects the larger grants that students would receive under the Blue and Gold “Light” compared to the existing “fee holiday” program. However, the Blue and Gold “Light” is proposed to be implemented along with the phase-in of a refined methodology for determining expected parent contributions (see below). Although some additional students with incomes below $120K may have financial need under the new need analysis methodology, it is expected that overall fewer students in this income range will have financial need. Thus actual eligibility and costs for the Blue and Gold “Light” may be somewhat lower than indicated.

The additional tuition level that would need to be charged to fund the incremental Blue and Gold “Light” cost varies by option but would be less than $200 in all cases.\(^7\) If not funded from an increase in tuition,

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\(^5\) All three commitments are capped at a student’s financial need and thus in each case may be less than the maximum stated.

\(^6\) Assumes mandatory systemwide charges of $12,924 in 2013-14 and $13,893 in 2014-15 per status quo scenario.
the cost would result in self-help levels that would be about $175 higher than if the status quo were maintained.

**Improved assessment of family resources when targeting aid**

The impact of more comprehensive assessment of parental wealth in determining expected parent contributions will depend on the specifics of the methodology that is adopted. There is a tradeoff between the sensitivity of the assessment and the workload and cost – to both the student and the financial aid office – of collecting, documenting, and analyzing additional indicators of wealth. Any alternative methodology may increase the expected parent contribution from some students while decreasing the contribution expected from other families. However, it is expected that the overall impact should be an increase in the total amount of contribution expected from UC parents as previously overlooked resources are considered.

For simulation purposes in the accompanying figures, the assumption is that overall expected parent contributions will increase over time by $40 million. This increase also serves as a benchmark goal for determining the particulars of the new methodology. Under Options A and B, the $40 million in higher parent contributions will lower the need for grants by $40 million and thus allow for a reduction in tuition levels of $200 to $300. Under Option C, the $40 million in higher parent contributions will allow $40 million in grants to be redirected to other students and reduce students’ self-help by about $275. The actual impact of adopting an institutional need analysis methodology may vary substantially from this illustrative estimate.

Regardless of the impact on UC’s total need for grant funding, a more sensitive methodology for assessing wealth should improve equity in the distribution of available grants. At all income levels, parents with relatively few assets may be expected to contribute less, whereas those with significant assets that are currently not considered may have higher expected contributions. A more comprehensive methodology may also increase equity across ethnic groups. Currently, African American and Chicano/Latino students are more likely to borrow than other students at equal income levels. A contributing reason may be that African American and Chicano/Latino families have fewer other resources (e.g., assets, home equity, income from non-custodial parents, etc.) to draw on than students from white families at the same income level. Thus the inclusion of these other resources in a more comprehensive methodology may disproportionately increase expected parent contributions from white students relative to African American and Chicano/Latino families.

**Expected Contribution from UCOP-led corporate fundraising**

Under Options A and B, the $5 million expected from UCOP fundraising will reduce the amount of tuition revenue required to meet the option’s funding commitment, which is calculated independently of fund source, and allow the amount of tuition charged to be about $30 lower than would otherwise be the case. Under Option C, the $5 million expected from UCOP fundraising is on top of UC’s funding commitment from tuition revenue. It provides an additional $5 million in UC grants that reduce students’ self-help by about $65.

Note that separate from this proposal, UCOP has committed $36 million of one-time funds from carry-forwards and STIP-to-TRIP income for UG financial aid. It is likely that these funds will be expended by

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7 For example, the higher tuition levels needed to fund lower self-help levels increase the cost of the Blue and Gold “Light.” However, these cost increases are offset by reduced numbers of students eligible for the Blue and Gold “Light” as lower self-help levels increase the eligibility of former “fee holiday” recipients for regular UC grants.
2014-15 and thus have not been included as a non-tuition revenue source in the simulations for 2014-15 and beyond. If there are some unexpended funds remaining in 2014-15, they will be added to the FFE established for UCOP’s corporate fundraising effort and extend the length of time funds from the FFE will be available for UC financial aid.

Financial aid commitment independent of operating budget.

Table 2 provides actual estimated amounts of undergraduate tuition and fee revenue available for each campus’s operating budget in 2012-13. The amounts are based on total estimated revenue from undergraduate mandatory charges less the amount designated for 2012-13 undergraduate financial aid. The table also provides simulated 2014-15 amounts available for campus operating budgets under the three financial aid options. The figures reflect the assumption that operating budget needs and revenue will increase by 5% in both 2013-14 and 2014-15. As can be seen, they do not vary by financial aid funding option; they are determined independently of the undergraduate tuition and fee revenue to be spent on UC’s minimum financial aid commitment.

| Table 2 |
| UG Tuition and Student Services Fee Revenue Available for Campus Operating Budgets: 2012-13 Estimated Actual and 2014-15 Simulated Amounts Based on 5% Annual Increases in Operating Budget Needs in 2013-14 and 2014-15 |
| Operating Budget Revenue from UG Systemwide Mandatory Charges |
| Actual 2012-13 | Option A: Tuition/Fees = $14,050 | Option B: Tuition/Fees = $13,039 | Option C: Tuition/Fees = $13,893 |
| Berkeley | $217M | $239M | $239M |
| Davis | $203M | $224M | $224M |
| Irvine | $187M | $207M | $207M |
| Los Angeles | $232M | $256M | $256M |
| Merced | $45M | $50M | $50M |
| Riverside | $148M | $164M | $164M |
| San Diego | $191M | $210M | $210M |
| Santa Barbara | $152M | $167M | $167M |
| Santa Cruz | $125M | $138M | $138M |
| System | $1,500M | $1,654M | $1,654M |
Table 3 provides an illustration, using simulations for 2014-15, of how much funding the University and each campus would need to meet UC's systemwide financial aid commitment under each of the financial aid options. The campus amounts reflect the number and financial need of grant eligible students at each campus under each option. The funding needed and self-help levels vary across options in accordance with the generosity of the systemwide financial aid commitment, but the self-help levels are the same across campuses for each option.

<table>
<thead>
<tr>
<th>Campus</th>
<th>Total</th>
<th>Self-help</th>
<th>Total</th>
<th>Self-help</th>
<th>Total</th>
<th>Self-help</th>
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<tr>
<td>Status quo:</td>
<td>Tuition/Fees =</td>
<td></td>
<td>Option A:</td>
<td>Tuition/Fees =</td>
<td></td>
<td>Option B:</td>
</tr>
<tr>
<td></td>
<td>$13,893</td>
<td></td>
<td>Tuition/Fees =</td>
<td>$14,050</td>
<td></td>
<td>Tuition/Fees =</td>
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<td>$104.2</td>
<td>$11,345</td>
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<td>Davis</td>
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<td>$11,414</td>
<td>$107.6</td>
<td>$11,345</td>
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<td>$13,082</td>
</tr>
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<td>Irvine</td>
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<td>$11,345</td>
<td>$63.0</td>
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<td>$121.3</td>
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<td>$95.2</td>
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<tr>
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<td>$19.8</td>
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No change in method for determining campus contribution to funding commitment.

Using 2014-15 simulation data, Table 4 shows how much campus and UCOP fund sources would contribute to meet the UC systemwide financial aid commitments shown for each option in Table 3. Consistent with the funding streams methodology, each campus contribution represents the same percentage of their undergraduate tuition revenue under a given option. The options with a more generous financial aid commitment require a greater contribution from all campuses, but these options also generate a corresponding larger amount of tuition revenue for financial aid from their higher tuition charges.

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8 Excludes $8M of financial aid need generated by campus-based fees and funded from the 25% return-to-aid required on campus-based fees established or adjusted after 2006.
Table 4


<table>
<thead>
<tr>
<th>Financial Aid Funding Options</th>
<th>Status quo: Tuition/Fees = $13,893</th>
<th>Option A: Tuition/Fees = $14,050</th>
<th>Option B: Tuition/Fees = $13,039</th>
<th>Option C: Tuition/Fees = $13,893</th>
</tr>
</thead>
<tbody>
<tr>
<td>Campus revenue 9</td>
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<td>$ for systemwide commitment</td>
<td>$ for systemwide commitment</td>
<td>$ for systemwide commitment</td>
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<td>Berkeley</td>
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<td>$100.8M 29.7%</td>
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<tr>
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<td>$94.5M 29.7%</td>
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<td>$65.5M 24.0%</td>
<td>$83.8M 28.8%</td>
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<tr>
<td>Los Angeles</td>
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<td>$108.0M 29.7%</td>
<td>$81.0M 24.0%</td>
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<td>$69.2M 29.7%</td>
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<tr>
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<td>$697.9M 29.7%</td>
<td>$523.4M 24.0%</td>
<td>$669.9M 28.8%</td>
</tr>
</tbody>
</table>

| UCOP revenue 11              | $60M -                               | $65M -                               | $65M -                               | $65M -                               |
| System                       | $729.8M -                            | $762.9M -                            | $588.4M -                            | $734.9M -                            |

IMPACT OF THE DIFFERENT OPTIONS

Figures 1, 2, and 3 below illustrate the impact of each option and the status quo (Option 0) on the average net cost (total cost of attendance less gift aid) for students from lower-, middle-, and higher-income families. The status-quo would maintain the current revenue-driven, 33% return-to-aid approach with the existing Blue and Gold Opportunity Program for students from families with income less than $80,000 along with the current “fee holiday” program. In general, compared to the status quo:

- Option A reduces the net cost for students from low- and middle-income families while increasing the net cost for students from higher-income families.
- Option B increases the net cost for students from low-income families while reducing the net cost for students from middle- and higher-income families.
- The impact of Option C is less predictable since it, like the status quo, is driven by revenue and not policy. Under both the status quo and Option C, self-help levels of students from lower-income families would rise above UC’s benchmark over time, while higher-income families

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9 Excludes $8M of financial aid need generated by campus-based fees and funded from the 25% return-to-aid required on campus-based fees established or adjusted after 2006.

10 Variation in % of tuition revenue across options reflects variation in tuition levels; as shown in Table 1, the dollars for the operating budget do not vary across options.

11 Includes $52M of state general funds for financial aid, $5M from UCOP corporate fundraising (except in the status quo scenario), and $9M from EAP tuition and fees (EAP amount actually will vary slightly across options in accordance with tuition level variation).
would benefit by capping return-to-aid at 33%. As with Options A and B, middle-income families would benefit from the new Blue and Gold “Light.”

**Impact on students from lower-income families**

Figure 1 shows the net cost of attendance for a typical student with a parent income of $50,000 in 2013-14. The net cost is the total cost of attendance (tuition and fees plus living expenses) less the student’s grant awards and represents the sum of the student’s expected parent and self-help contributions. This student’s expected parent contribution is $2,000 – about the median of the contributions from UC financial aid applicants with similar incomes - and does not vary across options. However, the student’s self-help contribution and hence the student’s net cost do vary across options. Most notably, in 2014-15, Option B raises the midpoint self-help benchmark, and hence net costs, by $1,737 over the current benchmark used in Option A. The difference persists over time, increasing to $1,905 by 2017-18 as both benchmarks rise slowly with projected increases in wages. Net costs grow under Option C as the 33% return-to-aid cap produces increasing funding shortfalls. However, they end up below the status quo because the combined impact of the features common to all three options, when fully phased-in, reduces student grant need.

![Figure 1. Projected Net Cost for $50,000 Parent Income](image)

12 All figures in the simulations reflect expected contributions from students and their parents and the resulting expected grants for which they would be eligible. Actual grant awards will vary somewhat from these expectations due to campus awarding policies and locally available funding in any given year.

13 Although parent contributions on average are expected to increase under the more comprehensive need analysis methodology proposed for all three options, the contribution expected from any one student will not vary across option.

14 The increase in the net cost of Option B could be smoothed out by phasing in the assumption that students would extend their repayment period from 10 to 15 years. For instance, under a five-year phase-in with a repayment period of 11 years in the first year, the 2014-15 net cost of Option B could be reduced from $15,082 to $13,779, thereby reducing the 2014-15 difference in net cost between Option A and Option B from $1,737 to $434.

15 In all options, the simulated $40 million reduction in grant need resulting from a more comprehensive need analysis methodology when fully phased in, along with the $5 million expected from corporate fundraising, more than offsets the estimated $21 million additional cost of the Blue and Gold “Light.”
**Impact on students from middle-income families**

Figure 2 shows the net cost of attendance for a typical student with a parent income of $100,000 in 2013-14. The student has the same total cost of attendance as the lower-income student in Figure 1 but has higher net costs due to a higher expected parent contribution. For this hypothetical student the expected parent contribution is $16,000. Under all three options, the student would benefit from the Blue and Gold “Light” expansion and receive a grant equal to half of systemwide tuition and fees (rather than a “fee holiday” grant equal to half of the tuition and fee increase). Hence, the student’s net costs would be over $4,000 less than under the status quo. Among the three options that incorporate the Blue and Gold “Light,” the student’s net cost would vary with total tuition levels, which are highest under Option A, since the Blue and Gold “Light” leaves students responsible for half of their tuition charges.

![Figure 2. Projected Net Cost for $100,000 Parent Income](image)

**Impact on students from higher-income families**

Figure 3 shows the cost of attendance for a typical student with a parent income of $150,000. This student does not have enough financial need to be eligible for any grant assistance and thus under all options pays the full costs of attending UC from parental resources along with contributions from student work and borrowing. The total cost of attendance increases over time as non-tuition costs increase with inflation and tuition charges increase to produce needed revenue for UC’s operating budget and financial aid commitment. The variation in costs across options reflects the differences in total tuition (the “sticker price”) needed to meet the financial aid commitment under each option. They are highest under Option A since tuition levels need to be higher to pay for the larger grant assistance to lower-income students provided under this option.
IMPACT OF POSSIBLE TUITION FREEZE

All of the options are predicated on the ability to raise tuition annually to help fund UC’s systemwide financial accessibility commitment. If UC is subject to a tuition freeze in any year, UC’s funding strategy for financial aid would need to be suspended until such time as a tuition increase could be enacted. The suspension would involve the following:

- A delay in the implementation of the first-year of the Blue and Gold “Light” to a year with a tuition increase so that this expanded commitment to middle-income families would help mitigate the impact of a necessary tuition increase.

- A temporary increase in self-help expectations of lower-income students as non-tuition expenses continue to grow with no corresponding new tuition revenue for UC grants. For example, self-help would increase by an estimated $900 in 2014-15 to cover an estimated $900 increase in non-tuition expenses (e.g., health insurance, rent, transportation, etc.). Self-help levels would be adjusted to their “manageable” benchmark level, as defined by each option, when tuition increases are reinstated.

- No change in plans to implement a more comprehensive assessment of parental wealth and proceed with a UCOP corporate fundraising effort.

When tuition increases are resumed, UC’s funding strategy for financial aid would be reinstated. The financial accessibility commitment and associated tuition level needed to fund it would be determined in accord with whatever funding option the University has adopted.

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16 In contrast, based on the tuition levels assumed in this paper, self-help would increase in 2014-15 by only $624 under Option A, by $2,361 under Option B if the new 15-year loan repayment assumption were fully implemented in 2014 (or by $1,058 if the new 15-year loan repayment assumption under Option B were phased in over five years), and by $757 under Option C.