Strategic Options for Guaranteeing Long-Term Financial Accessibility for UC Undergraduates

Prepared by the University of California
Workgroup On Undergraduate Affordability
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Context

- The University of California has a fundamental responsibility to be financially accessible to all students admitted within the framework of the Master Plan, regardless of their financial resources. This responsibility is implicit in the Master Plan itself and forms the basis of the University's undergraduate financial aid policy.

Findings

- Despite a host of challenges in recent years – including large fee increases resulting from deep cuts in State support for the University's budget, increases in non-fee costs, and large fluctuations in the California economy – the University has remained financially accessible to students at all income levels. *See Appendix A, p. A-1.*
- Within the next 5-7 years, a UC education is in danger of becoming financially inaccessible for low- and middle-income students, based on current trends. *See Appendix A, pp. A-6 and A-7.*
  - The self-help amount that students are expected to contribute from work and borrowing is expected to increase from about $9,700 now to $11,800 in 2012-13 and to $16,700 in 2017-18.
  - The already substantial burden on middle-income parents will continue to outpace increases in family income.
- Students with particularly challenging circumstances are not adequately served by the University's current financial aid programs. *See Appendix A, p. A-2.*
  - Examples include students from particularly disadvantaged, low-income backgrounds; former foster youth and orphans; and undocumented students.
- Over time, continued large increases in the University's fees are not sustainable. *See Appendix A, pp. A-6 and A-7.*
  - In general, fee increases do not reduce financial access for low-income students because these students typically receive Cal Grants or UC grants that cover any fee increase.
  - However, continued large fee increases will erode financial access for many needy middle-class families who do not qualify for Cal Grants despite the University's current practice of covering one-half of the fee increase for these students.
- Guaranteeing financial accessibility will require a sustained multi-pronged effort to increase the resources available for financial aid. This will involve:
  - Aggressively seeking private funds to provide long-term solutions to affordability; this will be greatly enhanced by a balanced public-private partnership.
  - Increased State support for Cal Grants and for the core budget of the University.
  - Increasing the priority of undergraduate financial aid for internal funding decisions.

Principles

- A UC education is a tremendous public benefit that enriches students' lives and supports socioeconomic growth and mobility throughout California.
- Preserving UC's accessibility is a shared responsibility between the University, the State, and the Federal government.
- Maintaining financial access to a UC education should be a high priority for UC funding decisions – at UCOP and at the campus level – and for UC state/federal advocacy.
- Maintaining financial accessibility is a concern for the entire UC system, not just individual campuses.
- The University needs a long-term strategy to address the accessibility challenge.
- Additional private fundraising at the systemwide and campus levels should be encouraged, and must augment – not replace – funding from other sources.

Strategy for Guaranteeing Financial Access

- UC should establish the following goals to guarantee financial accessibility:
  1. At a minimum,
     - Maintain the systemwide self-help contribution at the midpoint of the manageable range
     - Reduce the amount that the University expects parents to contribute to reflect more accurately their financial resources and to increase their eligibility for UC need-based grants
  2. Commensurate with available funding and campus needs, reduce the self-help contribution for students with specific challenges related to affordability, such as:
     - Undocumented students
     - Students from extremely low-income backgrounds
     - Former foster youth and orphans

- UC should adopt a multi-pronged strategy to obtain funds to meet these objectives.
  1. Seek new external resources for need-based grants
     a. Launch a coordinated endowment campaign with state matching funds to encourage fundraising at the campus and systemwide levels.
        - Funds raised by each campus would be used first for need-based grants to reduce the self-help level and to reflect new, lower parent contributions at that campus; funds raised at a systemwide level would be used to help achieve equity among campuses in reaching these objectives. (See Appendix B for a detailed description of how this program might work.)
        - *Additional Aid to UC Students: $100 million per year by 2017-18*

b. Seek modifications to the Cal Grant program to generate additional Cal Grant funding for UC students.

   - The Cal Grant program is the state's major investment in providing access and choice to California higher education and has widespread legislative and segmental support.
   - The current lack of first-year fee coverage for Cal Grant B recipients is widely recognized as indefensible from a public policy perspective and has reduced the adequacy of these awards as fees have increased. UC should lead a sustained, multi-segmental effort to fix this aspect of the program.
   - *Additional Aid to UC Students: $75 million per year by 2017-18*

2. Raise the priority of student financial support for internal allocations

   a. Increase, over time, the return-to-aid on new fee revenue from 33% to 40%.

   - Beginning in 2008-09, UC should increase the return-to-aid on new fee revenue by 1% each year, from 33% today to 40% in 2014-15.
   - This policy change would reflect a heightened priority systemwide for maintaining access.
   - *Additional Aid to UC Students: $48 million per year by 2017-18*

   b. Encourage campuses to implement a "return-to-aid" of 20% on the incremental income generated by the new Total Return on Investment Pool (TRIP) strategy.

   - Setting aside a portion of this new revenue source would reflect a heightened priority for maintaining financial access for UC undergraduates.
   - *Additional Aid to UC Students: $20-40 million per year by 2017-18*

3. Advocate for sufficient state support of UC to allow moderate fee increases that do not exceed increases in California personal income

   - Mobilize friends of UC (including students and alumni) to ensure that the state maintains its commitment to the University and to the many stakeholders that it serves.

4. Identify best practices at each campus in the following areas:

   - Reducing time-to-degree and, hence, the overall cost of a UC education
   - Improving how the University communicates expectations about students' estimated expenses (housing, transportation, etc.) to help students and parents to plan and budget accordingly
   - Coordinating the disbursement of financial aid to better align with students' actual needs (e.g., payment deadlines for rent and other expenses)
   - Containing costs that are within the University's direct or indirect control (e.g., reevaluating the possibility for a regional or systemwide USHIP contract or exploring ways to reduce the cost of books and supplies)
   - Increasing students' ongoing commitment to UC as active and engaged alumni

- See Table 1, below, for projected costs and resources associated with the major proposals described above.

Action Plan

1. **Reaffirm financial access for UC undergraduates as among the University's highest priorities.**

   - The Regents should reaffirm their commitment to preserving financial access for UC undergraduates and include this commitment among the University's highest priorities.

2. **Launch a public-private partnership involving UC fundraising and State matching funds**

   - UC should include a request for up to $100 million in State matching funds in the University's budget request for 2008-09 and lay the groundwork for a sustained State commitment over the next ten years.
   - UCOP should coordinate efforts between the UCOP Budget Office, State Government Relations, and campus Government Relations offices to promote the State matching funds concept among legislators and the Governor's Office.
   - UC should establish a systemwide campaign steering committee with members selected from among UCOP Senior Executives, The Regents, Chancellors, and major private supporters of the University.

     Among the steering committee's responsibilities will be:

     - Identifying and recruiting an experienced, high-profile campaign chair (or co-chairs) to lead the effort from a systemwide level
     - Identifying the major, common themes of the systemwide and campus fundraising efforts related to undergraduate access
     - Developing processes to coordinate the identification and cultivation of major prospects at the systemwide and campus levels

3. **Work towards expanding the Cal Grant program to provide fee coverage for first-year Cal Grant B recipients.**

   - UCOP State Government Relations should develop a strategy for seeking first-year fee coverage for Cal Grant B recipients. The strategy should include:

     - Coordination with other segments to ensure that support for this initiative is a high priority for them as well
     - UC sponsorship of legislation in coordination with UC's other legislative and budget priorities.

4. **Increase the return-to-aid on new undergraduate systemwide fee revenue.**

   - The UCOP Budget Office should develop options for absorbing the reduction in net fee revenue represented by a 1% increase in the return-to-aid for 2008-09 and provide those options to The Regents for their review.
   - Each year through 2014, The Regents should review options for further increasing the return-to-aid on new undergraduate fee revenue, ultimately reaching 40%, consistent with the high priority placed on financial access.

- Options should be presented within the context of the University's overall budget and not solely as trade-offs with other key UC priorities (e.g., restoring the competitiveness of faculty compensation or improving graduate student support).
    - ➢ A description of the University's core budget and its priorities for 2008-09 may be found in the *2008-09 Budget for Current Operations Summary of the Budget Request,* available at http://budget.ucop.edu/rbudget/200809/2008-09SumBudgRequest.pdf

5. **Encourage campuses to implement a 20% "return-to-aid" on newly available STIP investment income.**
    - UCOP and campuses should develop estimates for the additional revenue that is anticipated from an improved STIP investment strategy and the budget implications for allocating 20% of that amount for undergraduate need-based grants.

6. **Develop a consistent systemwide approach for reducing the amount the University expects low- and middle-income parents to contribute towards a student's education.**
    - The Education Finance Model Steering Committee should develop a specific approach for reducing the amount that low- and middle-income parents are expected to contribute towards a student's education. The proposal should have the following features:
        - ➢ It should be scalable based on available funding (i.e., its implementation should be phased in over multiple years as new funding becomes available).
        - ➢ Campuses should be able to able to administer it with existing operational resources.
        - ➢ The new, lower parental contributions should apply to all forms of UC-provided need-based aid.
    - Campuses should incorporate the new approach into financial aid packages for 2009-10, subject to available funding.
    - For 2008-09, the University should continue its past practice of offsetting one-half of any fee increase for every needy middle-income student who does not already receive a Cal Grant or a UC grant that covers the fee increase.

Table 1
Costs and Resources Associated With the University's Goals and Funding Options

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Projected Resources - Current Policies[1]										
Projected Available USAP Resources	$303 M	$334 M	$366 M	$400 M	$428 M	$456 M	$486 M	$519 M	$554 M	$592 M
Projected Available Campus RTA	$11 M	$16 M	$22 M	$28 M	$36 M	$44 M	$53 M	$64 M	$76 M	$90 M
Total	$314 M	$349 M	$387 M	$429 M	$463 M	$500 M	$540 M	$583 M	$631 M	$681 M
Additional Costs to Achieve Goals										
1. Maintain LWE at Midpoint	$6 M	$16 M	$21 M	$40 M	$51 M	$86 M	$127 M	$177 M	$230 M	$291 M
2. Provide Relief to Middle Income (phase-in)[2]	$6 M	$14 M	$22 M	$33 M	$44 M	$58 M	$74 M	$92 M	$111 M	$133 M
Subtotal	$12 M	$29 M	$43 M	$73 M	$95 M	$144 M	$201 M	$268 M	$341 M	$424 M
3. Reduce Self-Help for:										
All Pell Grant recipients by $1,000	$40 M	$43 M	$45 M	$48 M	$52 M	$53 M	$54 M	$56 M	$57 M	$58 M
Pell Grant recipients w/$0 PC by $1,000	$18 M	$18 M	$19 M	$19 M	$19 M	$20 M	$20 M	$21 M	$21 M	$22 M
Independent Pell Grant recipients by $1,000	$4 M	$4 M	$4 M	$4 M	$4 M	$4 M	$4 M	$4 M	$4 M	$4 M
Transfers with Pells by $1,000	$6 M	$7 M	$7 M	$7 M	$8 M	$8 M	$8 M	$9 M	$9 M	$9 M
Former foster youth by $1,000	$0.2 M	$0.2 M	$0.2 M	$0.2 M	$0.2 M	$0.2 M	$0.2 M	$0.2 M	$0.2 M	$0.2 M
Undocumented students to achieve parity	$2 M	$2 M	$3 M	$3 M	$3 M	$4 M	$4 M	$5 M	$5 M	$6 M
Additional Funding from New Policies/Initiatives										
Increase RTA from 33% to 40% over time[3]	$1 M	$3 M	$6 M	$10 M	$14 M	$19 M	$26 M	$33 M	$40 M	$48 M
Scholarship Endowment Income[4]	$0 M	$6 M	$13 M	$22 M	$32 M	$44 M	$56 M	$69 M	$82 M	$96 M
20% of add'l 1% of TRIP income from $6B base	$12 M	$13 M	$14 M	$15 M	$16 M	$17 M	$18 M	$19 M	$21 M	$22 M
Cal Grant B 1st-Year Fees (phase-in)	$0 M	$0 M	$0 M	$13 M	$28 M	$45 M	$63 M	$67 M	$71 M	$75 M
Total Additional Funds	$13 M	$22 M	$33 M	$60 M	$90 M	$124 M	$162 M	$187 M	$213 M	$241 M

Assumptions:

1 Fees increase at 7% through 2011-12, 5% thereafter

2 Reductions to middle-income parent contributions are phased in beginning in 2008-09. Figures shown here represent one potential approach to reducing the PC; the Education Finance Model Steering Committee would presumably develop the final algorithm to be used.

3 Return-to-aid increase from 34% in 2008-09 to 40% in 2014-15

4 Fundraising targets are all met; pledges redeemed at 20%/year; UC fundraising continues at $100M/year after State match ends

Appendix A

Current Context for Undergraduate Student Financial Support at the University of California

In 1994, The Regents adopted a financial aid policy that established the guiding principles of the University's financial aid programs. That policy states that "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 Master Plan." At the systemwide level, that goal represents a commitment to ensure that the University remains *financially accessible* to students, regardless of their financial resources.

Despite a host of challenges in recent years – including large fee increases resulting from deep cuts in State support for the University's budget, increases in non-fee costs, and large fluctuations in the health of the California economy – many indicators suggest that the University has remained financially accessible to students at all income levels.[1] For example:

- The University continues to enroll a larger number of Pell Grant recipients than do comparable universities. *See Display A, page A-8.*
- The income distribution of UC students has generally remained stable, with small changes that have generally reflected trends in the income distribution of California families. *See Displays B and C, pages A-9 and A-10.*
- Differences in persistence and graduation rates for low- and high-income students (after controlling for academic preparation) have not widened in response to cost increases. *See Display D, page A-11.*
- Although some students at every income level work excessive hours (more than twenty hours per week), the relationship between hours worked and parent income is weak, and many students at every income level do not work. *See Display E, page A-12.*
- At every income level, a small percentage of students do graduate with excessive student loan debt. However, in constant dollars, students' average debt at graduation has remained flat or declined for students in most income levels, and the percentage of students graduating with debt has fallen. *See Displays F and G, pages A-13 and A-14.*

Nevertheless, there is real cause for concern about the University's ability to remain financially accessible in the future.

- Projected increases in student expenses – both fee and non-fee costs – are expected to outpace the growth in resources available to needy students. This will increase the burden on students and families at every income level to cover the cost of a UC education.

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[1] A more complete discussion of these and other outcome measures related to student financial support may be found on pages 24-35 of the *Annual Report on Student Financial Support 2005-2006,* available on the Student Financial Support website (www.ucop.edu/sas/sfs/) under "Reports and Data."

- The increased burden of cost increases on middle-income students will exacerbate their current perception that the amount the University expects them to contribute is inconsistent with their own expectations and ability.[2] *See Display I, page A-16.*
- Even today, the University does not have mechanisms in place on a systemwide basis to fully address the special needs of certain student populations. Examples include:
  - Undocumented Students
  - Students from very low-income families who, in addition to financing their own education, must contribute towards family expenses unrelated to their education
  - Former foster youth and orphans
  - Low-income students from disadvantaged high schools who lack knowledge about the financial aid available to them, or who lack many UC-bound role models, and hence do not apply for admission
  - Transfer students, whose decision to attend a community college for two years may indicate a particular reluctance to incur student loan debt

  The cost pressures noted above, if left unaddressed, will create further financial barriers for these students.

Providing adequate financial support in the face of projected cost increases is directly related to the University's ability to enroll a diverse student body. As shown in Display 1, below, underrepresented minority students are more likely than others to be from lower-income families and, hence, are keenly affected by the availability of need-based aid.

The University must anticipate and address these challenges to ensure that it can continue to fulfill the overarching goal articulated by The Regents.

Display 1
Income Distribution of UC Students by Ethnicity

	Parent Income		
Ethnicity	**Independent**	**$0 - $43,000**	**$43,000 +**
African American	16%	35%	49%
Asian	4%	34%	61%
Hispanic	11%	41%	48%
Native American	15%	20%	64%
White	8%	15%	77%
Other	11%	29%	59%
Unknown/Not stated	9%	19%	72%
All Students	7%	27%	65%

[2] Note that UC is not alone in its concern about the financial burden on middle-income families: Harvard recently announced a new initiative to reduce the amount that it expects middle- and upper-middle-income families to contribute. Other well funded private institutions are expected to do likewise, to varying degrees.

Financing a UC Education: The Education Financing Model

At the undergraduate level, The Regents' Financial Aid Policy establishes a systemwide funding commitment to allow a student's total cost of attendance to be financed through a combination of grants (from State, Federal, and/or University sources), an expected parental contribution, and an expected self-help contribution from work and borrowing that is manageable and equitable for all students systemwide. This framework, referred to as the Education Financing Model, is used to assess the funding requirements of the University's grant aid programs, to determine how much undergraduate grant aid is allocated across campuses, and to guide the awarding of aid to individual students.

Under the Model, the primary measure of the adequacy of the University's undergraduate financial aid program is the amount that students are expected to contribute through work and borrowing, known as the loan/work expectation (LWE)[3]. In any given year, the systemwide funded LWE is determined by parents' expected contribution under federal guidelines, the availability of grant aid from UC and other sources, and students' estimated expenses, as shown in Display 2, below.

Display 2
Education Financing Model

	Students' Expenses
less	Federal Estimated Parent Contribution
less	Grant Support from Federal, State, and UC Sources
equals	Loan/Work Expectation (LWE)

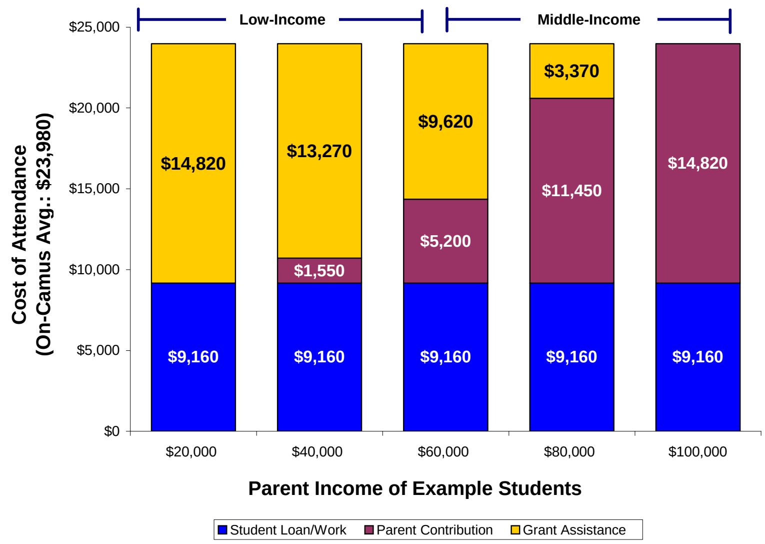
The manageability of the LWE during a given year is described by its position within a *manageable range* based upon minimum and maximum expected contributions from work and borrowing. A low position within the range suggests a more manageable LWE and, hence, greater financial accessibility; a high position suggests a less manageable LWE and, hence, less accessibility.

Funding for UC need-based grants is allocated across campuses to achieve the same LWE at every campus, consistent with the systemwide nature of this commitment.

Campuses generally award UC grant aid in a manner that results in a similar LWE for all UC grant recipients, regardless of their income level. This reflects an equity of expectations about how much students (rather than a parents) can be expected to contribute from work and borrowing. Display 3, below, depicts how this policy translates into illustrative financial aid packages received by students at different income levels.

[3] The terms "self-help expectation" and "loan/work expectation" are used interchangeably.

Display 3
Undergraduate Financial Aid Packages Under The Education Financing Model



The Regents' policy also describes a special role for *scholarships* in providing campuses with flexibility to lower the LWE for scholarship recipients. Whereas UC grants are need-based awards that are allocated to provide a common LWE across all campuses, scholarships are generally funded by campuses and are typically used to lower the LWE for individual recipients. Other distinctions between grants and scholarships are shown below.

	UC Grants	*UC Scholarships*
Fund source	Primarily from a return-to-aid on systemwide fees	Primarily from campus gifts and endowments
Basis for allocation across campuses	Allocated to achieve a common LWE across campuses given the costs, parent resources, and federal and state grants at each campus	Generally not allocated across campuses
Role	Equalizing financial access by providing a common, manageable LWE for all students	Reducing the LWE and/or rewarding merit for selected students
Basis for award	Need, after accounting for a students' other sources of support (parent contribution, federal and state grants, and the LWE)	Merit, need, or some combination of the two, depending on the program

While all scholarships effectively reduce the scholarship recipient's LWE, their role varies by campus:

- *Award strategy.* Most campuses use scholarships to provide substantial benefits to relatively few students. Berkeley, however, takes a different approach: scholarship funds are generally awarded to achieve the same effect as additional grant dollars – that is, they effectively lower the loan/work expectation for all students, exactly as if Berkeley had more grant dollars.

- *Basis for awards.* Campuses place different emphases on need- versus merit-based awards, which influences the extent to which they aid needy students; see Display 4, below.

- *Amount of funding available.* Funding from gifts and endowments – the primary source of scholarship funds – varies considerably across campuses. See Display 5, below.

Display 4
UC Scholarship[4] Recipients by Campus, 2005-06

Campus	Needy Students	Non-Needy Students
Berkeley	87%	13%
Davis	51%	49%
Irvine	45%	55%
Los Angeles	67%	33%
Merced	94%	6%
Riverside	44%	56%
San Diego	59%	41%
Santa Barbara	55%	45%
Santa Cruz	87%	13%
Systemwide	68%	32%

Display 5
Per Capita Awards from Gifts and Endowment by Campus, 2005-06

Campus	Expenditures Per Enrolled Undergraduate
Berkeley	$756
Davis	$121
Irvine	$146
Los Angeles	$285
Merced	$176
Riverside	$30
San Diego	$93
Santa Barbara	$37
Santa Cruz	$124
Systemwide	$223

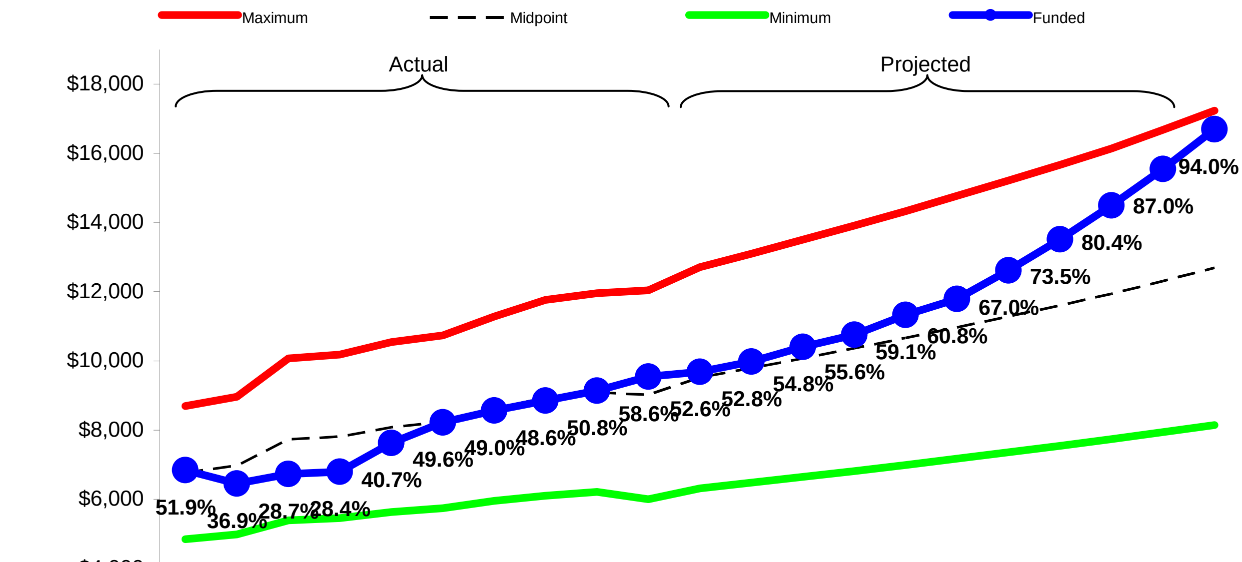
[4] Excludes athletic scholarships.

Projected Trends in UC Affordability

In recent years, the LWE has remained near the midpoint of the manageable range. By 2012-13, however, the University expects the LWE to increase to 60% of the manageable range – higher than at any time since this metric has been tracked. By 2017-18, the LWE is expected to increase to 94% of the manageable range. (See Display 6, below.)

The projections suggest an annual funding "gap" – growing from $6 million in 2008-09 to $291 million in 2017-18 – between projected funds and the funds that would be required to reduce the LWE to the midpoint of the range.

Display 6
Funded Loan / Work Expectation & Manageable Range of Loan / Work Including Projections for 2008-09 through 2012-13



	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18
Maximum	$8,695	$8,956	$10,069	$10,181	$10,538	$10,738	$11,279	$11,760	$11,959	$12,039	$12,709	$13,099	$13,499	$13,910	$14,331	$14,767	$15,212	$15,668	$16,138	$16,679	$17,234
Midpoint	$6,767	$6,970	$7,728	$7,815	$8,083	$8,238	$8,615	$8,931	$9,088	$9,018	$9,512	$9,788	$10,072	$10,363	$10,661	$10,969	$11,283	$11,607	$11,939	$12,309	$12,689
Minimum	$4,838	$4,983	$5,386	$5,449	$5,627	$5,738	$5,951	$6,102	$6,216	$5,997	$6,316	$6,478	$6,645	$6,815	$6,991	$7,171	$7,355	$7,545	$7,740	$7,940	$8,145
Funded	$6,840	$6,448	$6,730	$6,791	$7,624	$8,219	$8,562	$8,850	$9,135	$9,540	$9,681	$9,974	$10,404	$10,757	$11,330	$11,788	$12,619	$13,512	$14,490	$15,545	$16,692

The increase in the LWE reflects a structural weakness in the University's approach to funding its financial aid program: whereas several fund sources (e.g., Cal Grants and UC grants funded by return-to-aid) increase in response to fee increases, no fund source of need-based grant automatically increases to cover increases in non-fee costs. In prior years, this problem was masked by three factors:

- Relatively large fee increases generated enough financial aid to help low-income students cover a portion of their non-fee cost increases, too, between 2002-03 and 2005-06.

  The beneficial effect that fee increases have on the financial accessibility of low-income students is counterintuitive, but real. The uptick in the LWE in 2006-07 is largely attributable to the lack of a fee increase that year. For a more complete discussion of the relationship between fee increase and students' loan/work expectation, see Appendix, Display H.

- The Cal Grant Entitlement program, which was phased in beginning in 2001-02, created an initial dip in Cal Grant funding followed by steady, faster-than-usual funding increases. The phase-in – and the atypical increase in Cal Grant funding that it created – ended in 2005-06.

- Until recently, a student who received both a Cal Grant B and a Pell Grant had a manageable LWE without the need for additional UC Grant funds. As non-fee costs have increased, however, even these students will require UC grant assistance, thus "stretching" the need for every additional UC Grant dollar.

As non-fee costs continue to increase, however, their growth will outpace new aid revenue from traditional fund sources and the LWE will become less manageable over time. Fee increases will also result in higher costs for those middle-income families that do not currently qualify for either a Cal Grant or a UC grant. New fund sources will need to be identified in order to keep UC financially accessible to all students.

Display A
Pell Grant Recipients at UC and Selected Institutions, 2006-07

Institution	# Pell Recipients	% of Students With Pell
University of California-Berkeley	7,456	32.3%
University of California-Davis*	7,253	31.5%
University of California-Irvine	5,326	26.4%
University of California-Los Angeles	8,962	36.6%
University of California-Merced*	491	40.8%
University of California-Riverside	6,233	43.0%
University of California-San Diego	6,817	32.8%
University of California-Santa Barbara	4,545	25.3%
University of California-Santa Cruz	3,642	26.3%
UC Average	50,725	31.9%
Public Comparison Institutions		
University of Illinois at Urbana-Champaign	4,758	15.9%
U. of Michigan Ann Arbor	3,127	12.9%
U. of Virginia	1,105	7.9%
SUNY at Buffalo		28%**
Other Top-Ranked Public Institutions		
University of North Carolina at Chapel Hill	2,376	14.0%
University of Wisconsin-Madison	3,557	12.5%
Private Comparison Institutions		
MIT	576	15.1%
Stanford University	811	13.5%
Yale University	510	10.4%
Harvard University	808	8.7%
Other Top-Ranked Private Institutions		
Princeton University	415	9.5%
University of Pennsylvania	996	9.3%
Duke University	604	10.1%
Northwestern University	804	9.2%
Brown University	686	12.2%
Cornell University	1,834	14.7%
University of Southern California	2,739	18.0%
California Institute of Technology	98	12.3%

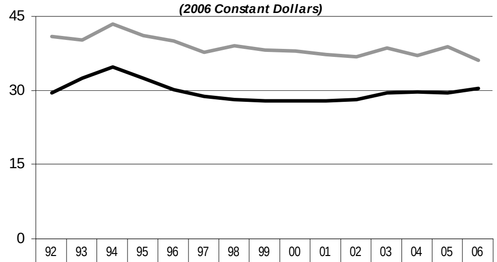
* The Federal Pell Grant reporting system – used to obtain comparable figures for all institutions – did not distinguish between Davis and Merced Pell Grant Recipients in 2006-07. Figures shown for those institutions are based upon the ratio of Pell Grant recipients at those campuses according to the University's own financial aid databases.

** Self-reported; the Federal reporting system reports a single figure for the entire SUNY system.

Display B
Income Distribution of UC Freshmen and California Families

Percent with Family Incomes of Less than $45,000: UC First-Time Freshmen and All California Families

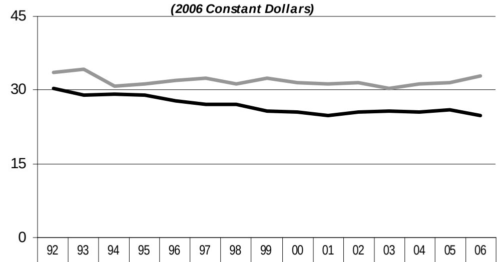
(2006 Constant Dollars)



	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06
CA Families	40.8	40.3	43.4	41.1	39.9	37.6	39.0	38.3	37.9	37.1	36.7	38.5	36.9	38.9	36.1
UC Enrolled	29.5	32.4	34.7	32.3	30.2	28.8	28.2	27.9	27.9	27.8	28.2	29.5	29.7	29.4	30.5

Percent with Family Incomes of $45,000 - $88,999: UC First-Time Freshmen and All California Families

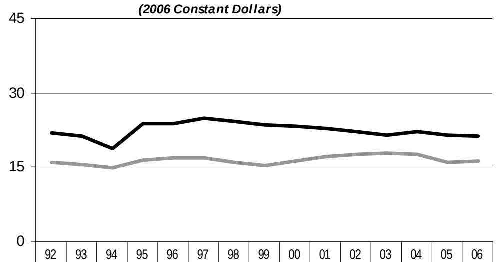
(2006 Constant Dollars)



	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06
CA Families	33.5	34.3	30.7	31.2	31.8	32.5	31.3	32.3	31.6	31.2	31.4	30.4	31.2	31.4	32.8
UC Enrolled	30.2	29.0	29.2	29.0	27.7	27.1	27.0	25.7	25.6	24.7	25.4	25.7	25.5	25.8	24.7

Percent with Family Incomes of $89,000 - $133,999: UC First-Time Freshmen and All California Families

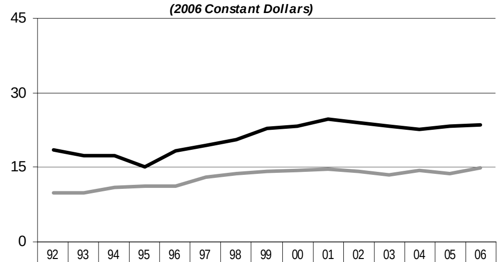
(2006 Constant Dollars)



	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06
CA Families	15.9	15.6	14.9	16.5	17.0	16.8	16.0	15.3	16.3	17.1	17.6	17.7	17.6	16.0	16.3
UC Enrolled	21.9	21.2	18.7	23.6	23.9	24.9	24.2	23.6	23.2	22.8	22.3	21.5	22.2	21.4	21.2

Percent with Family Incomes of $134,000 or More: UC First-Time Freshmen and All California Families

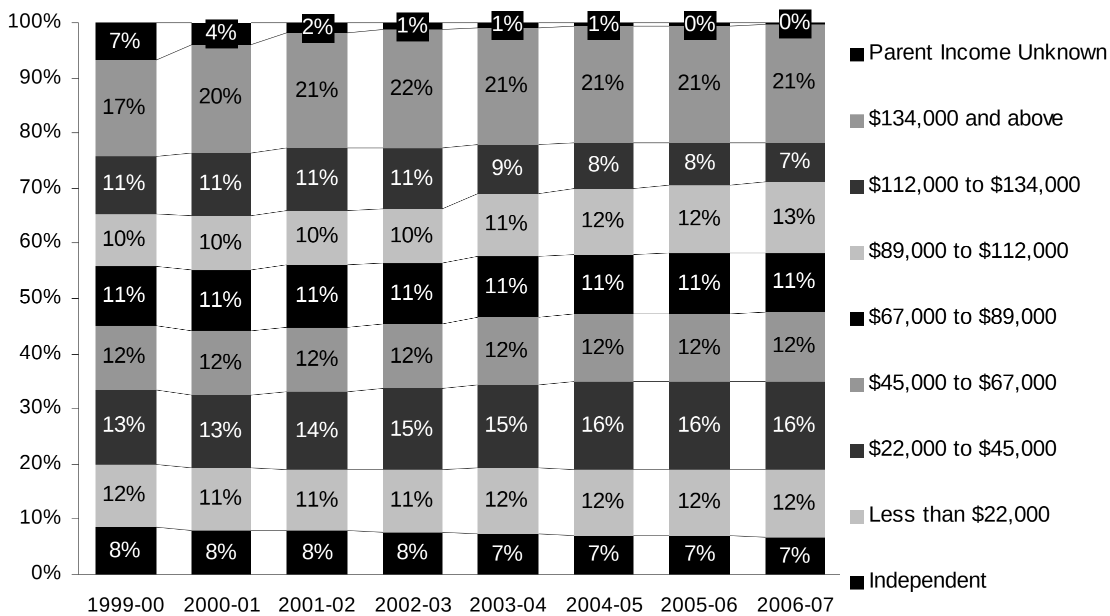
(2006 Constant Dollars)



	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06
CA Families	9.8	9.8	11.0	11.1	11.2	13.1	13.7	14.1	14.3	14.6	14.2	13.4	14.3	13.7	14.8
UC Enrolled	18.4	17.3	17.4	15.1	18.2	19.3	20.6	22.8	23.3	24.7	24.1	23.3	22.7	23.4	23.6

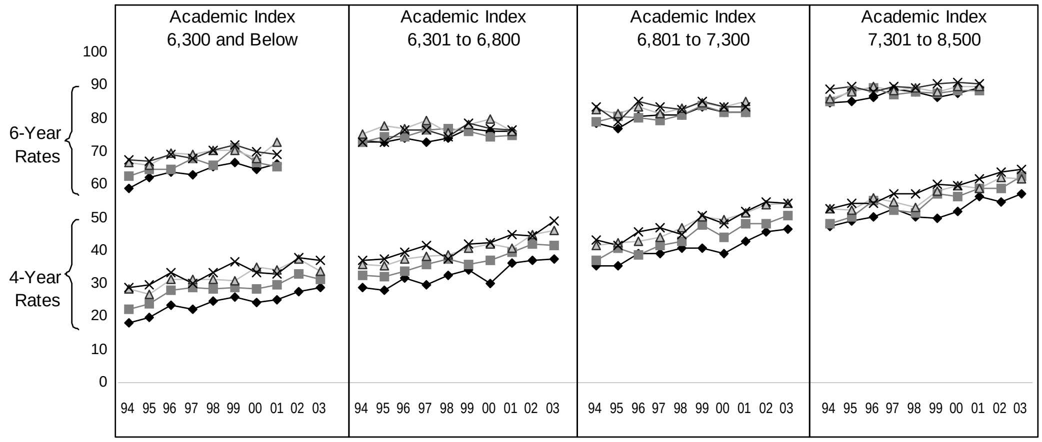
- Display B depicts trends in freshman enrollment since 1992 in terms of four constant-dollar income categories. The percentage of UC freshman within each category is plotted on one line, along with the comparable percentage of all California families according to the annual Current Population Survey.
- Families in the two lowest income categories appear to be underrepresented at UC because of the well established link between income and academic preparedness. Since fewer students from these families are academically eligible to attend UC, they represent a smaller share of the University's freshman enrollment.
- Overall, the enrollment patterns of first-time freshman students do not appear to be driven by year-to-year changes in the University's fees. Rather, they reflect broad changes in the income distribution of the California population as a whole.
- Since the late 1990s, however, there does appear to be a slight erosion in the percentage of UC students from the two middle-income categories shown above relative to the state population. It is not known whether this is related to affordability concerns, changes in admissions practices (e.g., campuses becoming more selective academically, which may favor better-prepared high-income students, while introducing comprehensive review practices that bolster the admission of lower-income students), or some other factor.

Display C
Income Distribution of UC Undergraduates, 2006-07 Constant Dollars



- The overall income distribution of UC undergraduates has remained relatively stable since 1999-00, despite large fee increases in 2002-03 through 2005-06.
- The stability suggests that the University's financial aid programs have kept the University's net cost of attendance within reach of low- and middle-income families, and that the University's total cost of attendance remains affordable for others.

Display D
Trends in Four- and Six-Year Graduation Rates
by Income and Academic Preparation



Academic Index 6,300 and Below

		94	95	96	97	98	99	00	01	02	03
6-Year Rates	Below $45K	59	62	64	63	66	67	65	66		
	$43K-$89K	62	65	65	68	66	71	67	65		
	$86K-$134K	67	66	69	69	71	70	68	73		
	$134K +	67	67	69	68	70	72	70	69		
4-Year Rates	Below $45K	18	20	23	22	25	26	24	25	28	29
	$43K-$89K	22	24	28	29	28	29	28	30	33	31
	$86K-$134K	28	27	31	31	31	31	35	34	37	34
	$134K +	29	30	33	30	34	37	33	33	38	37

Academic Index 6,301 to 6,800

		94	95	96	97	98	99	00	01	02	03
6-Year Rates	Below $45K	73	73	74	73	74	77	76	76		
	$43K-$89K	73	75	75	77	77	76	74	75		
	$86K-$134K	75	78	77	80	76	78	80	76		
	$134K +	73	73	77	77	74	79	77	77		
4-Year Rates	Below $45K	29	28	32	30	33	34	30	36	37	38
	$43K-$89K	33	32	34	36	37	36	37	39	42	42
	$86K-$134K	36	35	38	38	39	41	42	41	45	46
	$134K +	37	37	39	41	38	42	43	45	45	49

Academic Index 6,801 to 7,300

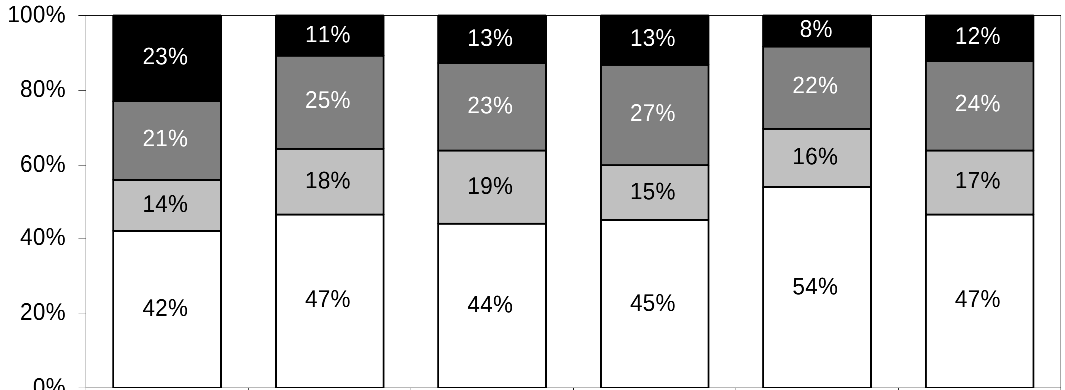
		94	95	96	97	98	99	00	01	02	03
6-Year Rates	Below $45K	79	77	81	81	81	84	82	82		
	$43K-$89K	79	81	80	80	81	84	82	82		
	$86K-$134K	83	81	83	81	83	85	84	85		
	$134K +	83	79	85	84	83	85	83	84		
4-Year Rates	Below $45K	35	36	39	39	41	41	39	43	46	46
	$43K-$89K	37	41	39	42	43	48	44	48	48	51
	$86K-$134K	41	42	43	44	47	50	49	51	54	54
	$134K +	43	42	46	47	45	51	48	52	55	54

Academic Index 7,301 to 8,500

		94	95	96	97	98	99	00	01	02	03
6-Year Rates	Below $45K	85	85	87	89	88	87	87	89		
	$43K-$89K	85	89	89	87	88	88	88	89		
	$86K-$134K	86	88	90	89	89	88	90	90		
	$134K +	89	90	88	90	89	91	91	91		
4-Year Rates	Below $45K	47	49	50	52	50	50	52	56	55	57
	$43K-$89K	48	50	55	52	51	57	57	59	59	63
	$86K-$134K	53	52	56	55	53	58	60	59	62	62
	$134K +	53	54	54	57	57	60	60	62	64	65

- Display E shows trends in the four- and six-year graduation rates for each entering class of UC freshmen from Fall 1994 through Fall 2003.
- Four-year graduation rates among the best prepared students (i.e., those with the highest academic index) show slight differences between parent income levels, but the differences remains generally stable during this period. Six-year graduation rates show even less difference by parental income level.
- Among less well prepared students, larger differences emerge between income groups, with students from lower-income backgrounds graduating at slightly lower rates. These differences may be attributable to other differences in these students' background that, while related to parent income, are distinct from financial considerations – for example, parents' education level or the extent to which these students initially enrolled with significant amounts of Advanced Placement credit.
- Overall, the patterns suggest that the University's financial aid programs allow low-income students to remain enrolled long enough to overcome other socioeconomic barriers to academic success that are not fully reflected in the measure of academic preparation used in this report.

Display E
Hours of Student Employment by Income, 2007 Student Expenses and Resources Survey (SEARS)

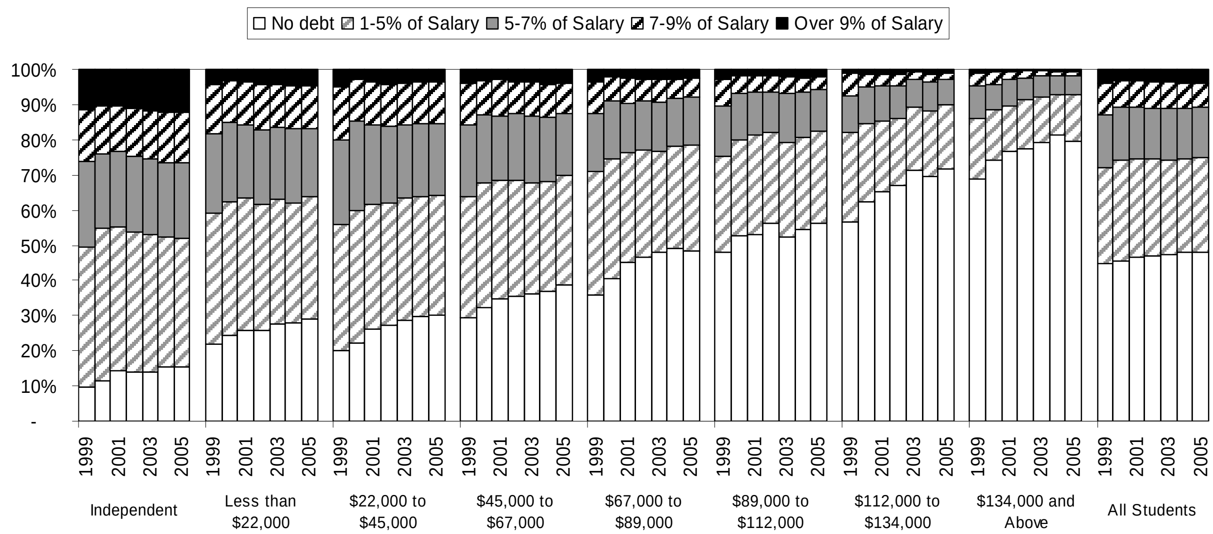


	Independent	Less than $45,000	$45,000 to $89,000	$89,000 to $134,000	$134,000 and above	All Students
■ > 20 hours per week	23%	11%	13%	13%	8%	12%
■ 11-20 hours/week	21%	25%	23%	27%	22%	24%
□ 1-10 hours/week	14%	18%	19%	15%	16%	17%
□ Did not work	42%	47%	44%	45%	54%	47%

- Work patterns among dependent students show some variation by parent income level.
- A large percentage of students at every income level do not work. This is consistent with the flexibility inherent in the Education Financing Model about how students actually cover their expected contribution.
- Some students at every income level report working more than 20 hours per week, which is beyond the upper bound of the University's manageable range. This is especially true for independent students.
- The relationship between students' work patterns and the affordability of the University is complicated by several factors:
  - Work hours are strongly related to the student's year in school, with seniors working more often and for longer hours than freshmen. The difference in work patterns between seniors and freshmen, for example, is much greater than the difference between students from low- and high-income families.
  - UC survey data indicate that students who work more than 20 hours per week also spend more, on average, on discretionary expense items than do other students. The causal relationship between these students' expenses and their work habits is unclear: do they work more because they have higher expenses, or do they spend more because they have more discretionary income?
  - Students work for reasons other than to finance their education. However, UC survey data indicate that among those students who more than 20 hours per week, the most frequently cited reason for working was to finance their education and to cover living expenses for themselves and, in some cases, other family members as well.

Display F

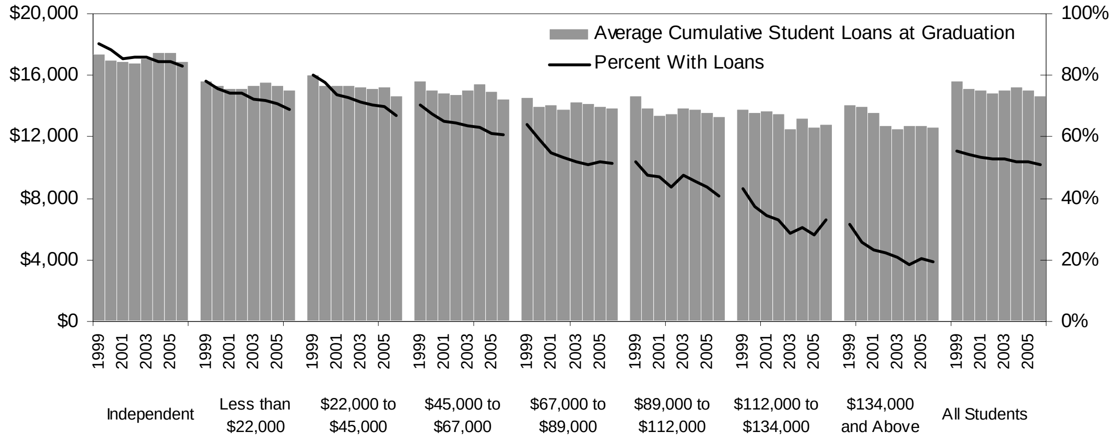
Trends in the Manageability of Debt at Graduation by Parent Income: Percentage of Students' Average Salary Required to Repay Student Loans



- Display F depicts the manageability of graduates' debt by grouping students into different categories (represented by different sections of each bar) based upon the percentage of their average estimated wages that would be required to repay their debt.
- The dark area at the top of the graph represents graduates whose debt would require more than 9% of their average starting salary to repay. (The estimated average starting salary for UC students graduating in 2005-06 was $38,047. [5])
  - The percentage of all UC graduates who fall into this last category is small – less than 4% in 2005-06 – and relatively stable over time.
  - Small changes are apparent among independent students and students from low-income families. Among independent students, the percentage of graduates in this category increased by two percentage points, from 10% to 12%, between 2000-01 and 2005-06; for graduates in the lowest income category, the percentage increased from 3% to 5%.

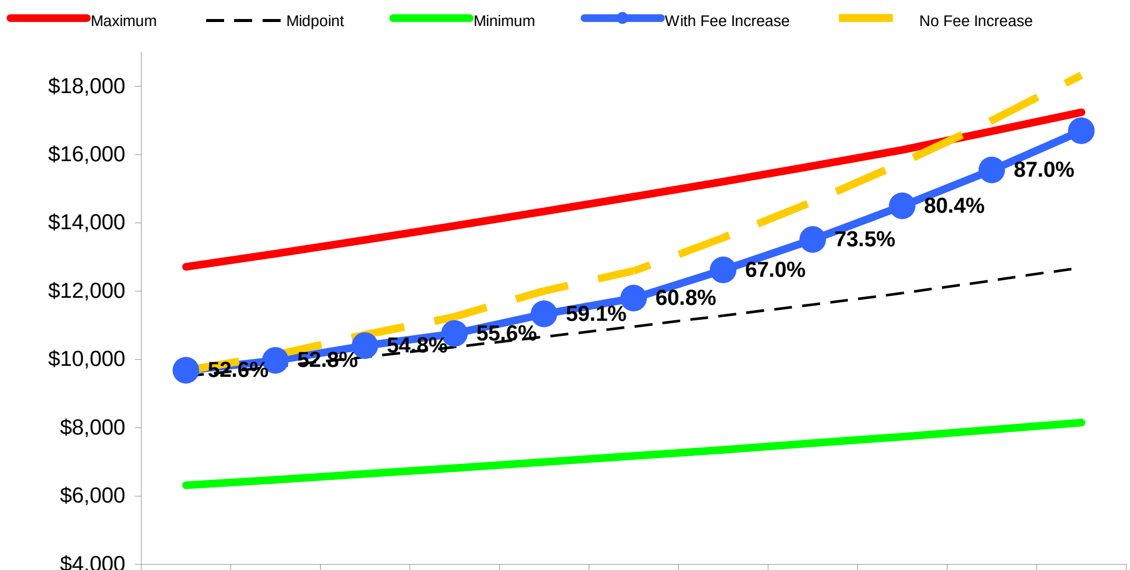
[5] The estimate represents actual first-year earnings of UC students who graduated in 2000-01 based on data provided by the California Employment Development Department, adjusted for subsequent changes in the California Consumer Price Index.

Display G
Trends in Cumulative Debt at Graduation by Parent Income, Constant 2006-07 Dollars



- Display G depicts recent trends in the average cumulative debt (shown by the grey bars) of UC graduates by parental income and the percentage of students within each income band (shown by the dark lines) who graduate with some amount of student debt, excluding parent loans.
- The likelihood that a student graduates with debt declines with parent income: students from high-income families are much less likely to graduate with debt than students from low-income families or independent students.
- Overall, 51% of the UC graduating class of 2006-07 had some student loan debt, a slight decline from 2005-06 (52%). The average cumulative student loan debt at graduation for these borrowers was $14,665, slightly lower than the comparable inflation-adjusted figure for 2005-06 graduates ($15,056).
- The percentage of students who graduate with debt has declined among every income group in most years depicted above. This is consistent with the declining trend in the number of students who borrow each year.
- Among those who do borrow, average cumulative debt has generally declined for students in every income bracket during most of the years depicted above.

Display H
Projected Trends in the Funded Loan / Work Expectation With and Without Fee Increases



	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18
Maximum	$12,709	$13,099	$13,499	$13,910	$14,331	$14,767	$15,212	$15,668	$16,138	$16,679	$17,234
Midpoint	$9,512	$9,788	$10,072	$10,363	$10,661	$10,969	$11,283	$11,607	$11,939	$12,309	$12,689
Minimum	$6,316	$6,478	$6,645	$6,815	$6,991	$7,171	$7,355	$7,545	$7,740	$7,940	$8,145
With Fee Increase	$9,681	$9,974	$10,404	$10,757	$11,330	$11,788	$12,619	$13,512	$14,490	$15,545	$16,692
No Fee Increase	$9,681	$10,128	$10,721	$11,244	$12,002	$12,592	$13,570	$14,618	$15,759	$16,988	$18,313

- Display H compares the projected loan/work expectation (LWE) associated with annual systemwide fee increases of 7% and a 33% return-to-aid (shown in the bold blue line) with the projected LWE if fees remain flat (shown in the dotted yellow line).
- Fee increases result in a loan/work expectation that is about $1,600 less in 2017-18 ($16,692) than if no fee increases had occurred ($18,313). Why?
  - Cal Grant awards generally increase to fully cover the fee increase for Cal Grant recipients.
  - Assuming a 33% return-to-aid, UC grant funding derived from the fee increase is enough to fully cover the increase for other low-income students, <u>plus</u> cover a portion of non-fee cost increases for UC grant-eligible students (including those who also have a Cal Grant).

Display I
How Parents Perceive UC Affordability
(Source: October 2005 surveys of parents of current and prospective UC students)

Percent of parents saying UC is "Affordable with a lot of sacrifice" or "Out of reach"

	Less Than $40,000	$40,000 to $79,999	$80,000 to $149,000	$150,000 or More
Prospective Parents	43%	31%	9%	30%
Current Parents	31%	48%	29%	9%

Prospective parents' views on cost-sharing between parents and students

	Less Than $40,000	$40,000 to $79,999	$80,000 to $149,000	$150,000 or More	All families
Parent pays most/all	30%	58%	77%	94%	64%
Costs shared equally	43%	22%	10%	3%	19%
Student pays most/all	20%	19%	9%	3%	14%
Not Sure	7%	1%	3%	0%	3%

Current parents' biggest concerns about paying for UC

	Less Than $40,000	$40,000 to $79,999	$80,000 to $149,000	$150,000 or More	All families
Depleting savings	52%	64%	55%	47%	55%
Reduce standard of living	45%	66%	53%	27%	49%
Student working too much	47%	52%	46%	28%	44%
Student having too much debt	51%	59%	30%	9%	49%

Prospective parents' views on UC expectations

	Very Reasonable	Somewhat reasonable	Somewhat unreasonable	Very unreasonable	Not sure
Students work in summer	68%	24%	1%	5%	1%
Students work part-time	59%	27%	8%	6%	1%
Students borrow	30%	35%	13%	19%	2%
Parents use savings	25%	41%	14%	18%	2%
Parents borrow	18%	43%	15%	21%	3%

- Many families view paying for a UC education as requiring "a lot of sacrifice" or "out of reach" – particularly middle-income families of students currently enrolled.
- Rather than putting too great a burden on students, many prospective parents expect to shoulder all or most college costs themselves.
- Middle-income parents of enrolled students are especially anxious about depleting their savings, lowering their living standard, and having their child work or borrow too much.
- Parents generally share UC's expectation that students will work to help finance their education, but they are less likely to expect their child to borrow.
- Some parents are also skeptical about the idea of making their expected contribution through savings or parent loans. This can make things very unmanageable, especially for middle-income families.

Appendix B

Possible Frameworks for a State Matching Funds Program

Rationale

Additional funding from a variety of sources will be needed to maintain financial access to UC. Among those sources is private fundraising. As a state-supported institution, UC faces perceptual hurdles in seeking private donations that private institutions do not.

The State can help UC overcome those hurdles by implementing a matching funds program. Such a program would encourage donations by (1) magnifying the impact of individual donations and (2) reinforcing the perception that donations augment, not replace, state funds.

Principles

1. Campuses and UCOP should raise funds for endowments for need-based grants.
2. Funds raised under this program should not affect a campuses' eligibility for USAP funding under the Education Financing Model.
3. A campus's initial eligibility for State matching funds should be commensurate with its need (i.e., its share of EFM funds).
4. Funds raised by a campus towards its eligibility should be matched on a 1:1 basis from State matching funds.
5. To the extent possible, no State funds should go unmatched ("left on the table").

Program Structure

A matching-funds program consistent with the principles above could be structured in several different ways. Three possible options are discussed below. Each approach would potentially provide a significant infusion of funds to UC students. The option ultimately selected by the University would be based upon whatever option would most likely garner the needed support in Sacramento.

Option 1: Annual Targets Matched by Annual State Appropriations

- The State makes $100 million in matching funds available to UC each year for ten years for matching donations to endowments providing need-based financial aid.
- Each year, UCOP calculates an eligibility "target" for State matching funds for each campus based upon the campus's need under the Education Financing Model. The targets would add up to $100 million. (See Table 1, below.)
- At the end of each year, each campus receives State matching funds up to its "target" based upon the donations (or pledges) it received from private donors for endowments to fund undergraduate need-based grants at the campus.
- In recognition that some campuses may not meet their target, fundraising efforts at the systemwide level would complement those at the campus level. Income from the systemwide endowments would be allocated to campuses with the largest gap

between their target and the resources they raised through their own fundraising efforts.

- If certain campuses and/or UCOP are unable to take full advantage of the available State matching funds, another campus (or campuses) may receive a match for those funds even if the campus had already earned its target level of State matching funds.

Table 1: Estimated Campus Share of Annual State Matching Funds Based on 2007-08 Share of USAP Funds

Campus	Share	Estimated Target
Berkeley	14.3%	$14.3 M
Davis	12.4%	$12.4 M
Irvine	11.7%	$11.7 M
Los Angeles	17.7%	$17.7 M
Merced	1.6%	$1.6 M
Riverside	10.2%	$10.2 M
San Diego	12.1%	$12.1 M
Santa Barbara	10.9%	$10.9 M
Santa Cruz	9.1%	$9.1 M

Option 2: Annual Targets and Appropriations, With "Rollover" of Unused State Matching Funds

- Same as Option 1, except that if a campus cannot fully utilize its State matching funds (i.e., its fundraising effort falls short of its target), the "unmatched" State funds would be held in trust by the State and would remain available as matching funds for that campus in subsequent years as part of a "capital accumulation campaign."
- If, at the end of ten years, a campus had not fully utilized its share of State funds, other campuses that had exceeded their targets (or UCOP) could qualify for the otherwise unused State matching funds.

Option 3: Cumulative Fundraising Targets With Annual State Appropriations

- The State makes $100 million in matching funds available to UC each year for ten years for matching donations to endowments providing need-based financial aid.
- Each campus has a cumulative target of the $1 billion total based upon its EFM share of USAP funds (e.g., Berkeley would be eligible for $143 million based upon its 14.3% share of EFM need).
- At the end of each year, each campus receives State matching funds based upon the donations (or pledges) that it received, subject to the campus's cumulative target and the annual limit of $100 million in State appropriations. If more than $100 million is raised in a single year, the excess amount is held in reserve to qualify towards the next year's allocation of State matching funds.
- Once a campus reaches its cumulative target, all other campuses would have priority for State matching funds in subsequent years. A campus could not exceed its cumulative target unless, in a given year, a portion of that year's State allocation would otherwise go unmatched.

- All campuses would have an incentive to raise money sooner rather than later because out-year State funding would always be subject to annual State appropriations.

<u>Roles and Responsibilities</u>

- Campaign Steering Committee:
  - Develop common themes for the campaign
  - Recruit needed fundraising expertise at the systemwide level
  - Develops process for avoiding or resolving conflicts between campuses seeking to solicit the same prospect(s)
  - Supports State Government Relations in securing State matching funds
- The Regents:
  - Identify, cultivate, and solicit systemwide capital prospects
  - Supports State Government Relations in securing State matching funds
- UCOP:
  - Allocate eligibility targets for State matching funds to campuses based upon their projected need under the Education Financing Model
  - Raise funds centrally for a systemwide endowment (a) to reduce the likelihood that State matching funds go "unmatched" in a particular year, and (b) to generate income that can be allocated to campuses to augment funds raised by campuses themselves.
  - Allocate endowment income generated from funds for need-based grants based upon campuses' need for need-based grants and each campus's success at raising endowment funds for itself.
- Campuses:
  - Raise funds towards their target from private sources to increase endowments.
  - Use endowment income generated from funds for need-based grants to meet the following objectives:
    - ➢ Reduce the self-help expectation for all students to the midpoint of the manageable range
    - ➢ Reduce the amount expected from parents
    - ➢ At a campus's discretion, further reduce the self-help expectation for selected high-need populations, based upon available funding.

Appendix C

University of California
Workgroup on Undergraduate Affordability
Membership

- Robert Birgeneau *(Chair),* Chancellor, Berkeley
- Ellen Wartella *(Vice Chair)* Executive Vice Chancellor, Riverside
- Benjamin Allen, Regent
- Keith Alley, Executive Vice Chancellor and Provost, Merced
- Rebecca Apostol, University of California Student Association
- William B. N. Berry, Professor, Berkeley
- Michael T. Brown, Chair, Academic Senate
- Janine Carmona, University of California Student Association
- Todd Lee, Assistant Chancellor – Budget and Planning, Santa Barbara
- Meredith Michaels, Vice Chancellor, Planning & Budget, Santa Cruz
- Janina Montero, Vice Chancellor for Student Affairs, Los Angeles
- Rebecca Newman, Associate Vice Chancellor for Development, San Diego
- Floyd Shimomura, President, Cal Aggie Alumni Association, Davis
- Brent Yunek, Acting Assistant Vice Chancellor for Enrollment Management, Irvine