



Charting the Course *for* Redesigning Financial Aid *in* California

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Acknowledgements

The Institute for College Access & Success is a trusted source of research, design, and advocacy for student-centered public policies that promote affordability, accountability, and equity in higher education. To learn more about TICAS, visit ticas.org and follow us on Twitter at [@TICAS_org](https://twitter.com/TICAS_org).

The recommendations put forth in this paper stemmed from a series of conversations, conducted over the course of 2019, with experts and stakeholders representing a range of perspectives and experiences within higher education and financial aid. While the views expressed in this paper cannot be attributed to any individual, each participant's perspective contributed to a more well-rounded recommendation and we thank them for generously sharing their time and expertise. Special thanks are due to Christopher Carter for his efforts to organize and facilitate these complex and dynamic conversations, without which this paper would not have been possible.

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Introduction

There is widespread understanding across California that college affordability is a challenge that the state must address to support equity in college attainment and meet the needs of the economy.¹ There is also now broad consensus about how to address it by opening up the state's financial aid programs to more low-income students and reorienting financial aid policies to better reflect students' needs, particularly by better accounting for students' full cost of attendance.²

While college affordability is a priority of California Governor Gavin Newsom and financial aid reform the subject of high-profile legislation in the state Senate and Assembly,³ a number of key questions remain about how to redesign state financial aid policy. Throughout 2019, The Institute for College Access & Success (TICAS) hosted meetings of a working group of experts and stakeholders ranging from students and advocates to policymakers and financial aid professionals, formed to further the level of detail within the policy debate.⁴ Over the course of eight months, the working group met six times for four-hour discussions to debate and help refine key details core to any financial aid reform proposal designed to contribute to a more affordable and more equitable state higher education system.

The working group's deliberations were off the record, and reaching consensus was not an explicit goal. However, we were able to explore policy design details in depth and identify core areas of general agreement, which we have incorporated into our own recommendations for the next steps that California should take to:

- *Improve Accuracy of Colleges' Cost Estimates*
- *Set Reasonable Financial Expectations for Families and for Students*
- *Ensure Reasonable Non-Financial Eligibility Terms for Students*
- *Remove Unnecessary and Outdated Barriers to Financial Aid*
- *Communicate Effectively with Students and Families*

Together, these changes would form the backbone of an achievable debt-free pathway to a college degree or certificate for California residents. The recommendations are intended to help identify the North Star for state financial aid discussions, and to guide new investments both large and small by articulating both the goals of financial aid reform as well as the students in most need of investment.

Background

Years of research have shown that the lowest income students in California spend much larger shares of their family incomes paying for college than any other income group; and among low-income students at public colleges, it is those at the lowest tuition colleges – the California community colleges (CCCs) – who face the highest costs.⁵ Specifically, public college students in California from families with \$30,000 or less in household income typically pay no tuition after grants and scholarships, but they still have to spend about half or more of their entire family

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income for other costs not covered by aid.⁶ This is because California's robust state need-based grant program, the Cal Grant, is focused primarily on covering tuition and fees, but the majority of total college costs faced by most of California's public college and university students are those beyond tuition and fees. The California Student Aid Commission (CSAC) estimates that, for 2019-20, these non-tuition costs will exceed \$22,000 for students who live off campus (as most public college students do)⁷ across all types of institutions.⁸ The result is that California's financial aid programs provide far less support for the non-tuition costs of college. Students with family incomes under \$54,000 for a family of four can receive a small Cal Grant stipend (up to \$1,672 in 2019-20) to help pay their non-tuition costs,⁹ but the purchasing power of that award is less than one-quarter of what it used to be.¹⁰

Additionally, while the Cal Grant program is well designed to reach college-bound high school graduates through its entitlement grant program, it excludes the overwhelming majority of applicants who are returning to school more than a year after high school who must compete for an award.¹¹ While lawmakers have recently prioritized making additional grants available,¹² hundreds of thousands of under-resourced Californians continue to remain unserved under the current program's structure.¹³

These financial challenges affect students of color most acutely and contribute to their disproportionately low completion rates and disproportionately high debt burdens. More than half of Black, Latino, and Native-American students come from households with family incomes under \$30,000 where the shares of income needed to pay for college are least tenable.¹⁴ Most of the state's Black, Latino, and Native-American undergraduates attend community colleges, where prior TICAS research has found completion (six-year graduation and transfer) rates for these students to be appallingly low (30%, 32%, and 37% respectively).¹⁵

More than half of Black, Latino, and Native-American students come from households with family incomes under \$30,000.

Moreover, while half of California bachelor's degree recipients graduate school with student debt averaging just under \$23,000¹⁶ – among the lowest in the nation – what the average does not reveal is that the students leaving college with debt are highly concentrated in the lower income brackets and that graduates of color are disproportionately more likely to borrow. About half of University of California (UC) bachelor's degree graduates with debt come from households with family incomes no more than \$58,000,¹⁷ and two-thirds of Black bachelor's degree graduates have debt compared to 40 percent of White graduates.¹⁸ At California State University (CSU) campuses, nearly eight in ten graduates with debt are from households with family incomes no greater than \$54,000, and three-quarters of Black graduates leave college with student loan debt to repay, compared to just under half of their White peers.¹⁹

Calls for Financial Aid Reform

In a series of interviews TICAS conducted with higher education experts across the state in 2018, experts agreed college affordability challenges have a wide range of negative implications for California students, especially for low-income and underrepresented students.²⁰ Insurmountable college costs are holding students back from completing college or completing it in a timely way; keeping students at work, rather than focusing on their studies; and contributing to burdensome levels of debt.

Proposals from TICAS,²¹ the state's Legislative Analyst's Office,²² and The Century Foundation in collaboration with CSAC²³ arrived at a similar conclusion: to address the drawbacks of California's financial aid programs the state must extend financial aid to more students and focus

on the manageability of students' total college costs not just their tuition charges. Each of the proposals envisioned a new approach to financial aid that would accurately capture students' total college costs, expect that students and families would make financial contributions that were reasonable given their own financial circumstances, and account for federal and institutional financial aid. State grant aid would cover the rest.

With that backbone for a new approach to financial aid in place, we turned to the remaining questions about policy design. For example, what does it mean for student and family contributions to be reasonable? How well do colleges' estimates of the total costs of attendance reflect the actual needs and expenses of students? How should the state prioritize new investments if a new program is phased in? How can we make financial aid communications more accessible, understandable, and resonant for students and families? With those questions in mind, we engaged higher education researchers to explore each one,²⁴ hosted a convening to explore their findings, and then formed the working group to build on those efforts and inform additional recommendations for making an affordability pledge to students a reality.

The timeliness of these recommendations, detailed below, is beyond dispute. In 2019, state legislators introduced multiple bills aimed at reforming state financial aid and Governor Gavin Newsom foreshadowed a focus on making new financial aid investments to bring college costs within reach for low-income students.²⁵ This memo helps chart the course for designing meaningful financial aid reform that ensures equitable college opportunity and completion and allows California to foster the educated workforce its future demands, by better understanding and addressing today's students and their needs.

AFFORDABILITY PLEDGE FRAMEWORK

Collectively, across All Covered Students

Reasonable Parent Contribution	+
--------------------------------	---

Reasonable Student Contribution	+
---------------------------------	---

Grant Aid	=
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Total Cost of Attendance	
---------------------------------	--

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Recommendations for California's College Affordability Pledge

Improve Accuracy of Colleges' Cost Estimates

Federal law directs colleges to develop estimates of what costs students will need to cover while enrolled, including tuition and fees, textbooks and supplies, transportation, food, housing, and other personal expenses. In addition to communicating to students and families the scale of costs they may face, these estimates are central in determining financial aid eligibility. Colleges' cost of attendance (COA) estimates serve as a cap on the financial aid a student can receive, and students' need for financial aid can be generally understood as their estimated COA minus their expected family contribution (EFC).

Colleges have flexibility in how they develop COA budgets for students. Typically, colleges rely upon surveys that ask students how much they spend on college costs or use information based on external sources, such as federal data on housing costs. Many colleges in California rely upon estimates put forth by CSAC, based on statewide surveys of students across all types of California colleges.²⁶ Once conducted, these surveys form the basis of cost attendance budgets for several years, adjusted annually to account for year-over-year changes.

The accuracy and integrity of COA estimates are critical to ensuring that a financial aid pledge works as intended.²⁷ If estimates *understate* the costs students must pay, then seemingly reasonable financial contributions from students or families will not be enough to make up for the gap between actual costs and available aid. Additionally, if financial aid availability is directly linked with colleges' cost estimates, colleges could *overstate* costs to increase the amount of aid their students receive.

There are reasons to question the integrity of some cost estimates currently. For instance, estimates for off-campus food and housing costs are the same for students at City College of San Francisco as they are at Imperial Valley College.²⁸ Both colleges rely upon statewide estimates, despite their respective home cities having among the highest and lowest housing costs across California.²⁹ Within the UC system, UC Merced estimates for on-campus room and board costs are more than double those for students living off-campus,³⁰ raising questions about what is driving the differences.

PROPOSAL: Colleges should retain their flexibility to develop and adjust student cost estimates because they are in the best position to both understand and influence students' annual costs and needs. For instance, UC Davis is experimenting with digital textbook subscriptions designed to bring down textbook costs for students and doing so could enable the college to lower estimated book costs in student budgets accordingly.³¹ However, more must be done to ensure that college cost estimates provide meaningful guideposts for students and families and retain credibility with the policymakers being asked to fund a generous new financial aid program based upon them.

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We recommend requiring colleges to report their annual cost estimates to CSAC each year, with an expectation that CSAC would monitor the integrity of these estimates using its own survey data and other trusted external data sources. For colleges' where cost estimates differ significantly from expectations (e.g., by 15% or more), CSAC could explore the rationale for the differences. Colleges would retain full authority to set their own budgets, but in cases where differences between estimates could not be justified, CSAC could adjust the award size that pledge-eligible students could receive. This would help ensure that colleges' cost estimates are well considered and that aid allocations are accurate.

Set Reasonable Financial Expectations for Families and for Students

Should California Adjust the Federal EFC for Variations in Costs of Living?

For every student who files an annual Free Application for Federal Student Aid (FAFSA), the U.S. Department of Education calculates an "Expected Family Contribution," or EFC. The EFC is a measurement of a family's discretionary income (income above a protected amount) plus certain assets and calculates the portion of those resources it believes should be available to help cover college costs. Similar to calculations of the federal poverty level and federal means-tested benefits programs, the EFC is adjusted minimally to account for variations in costs of living across the country. For families in relatively high cost regions, the lack of geographic adjustment contributes to questions about the overall credibility of the federal EFC calculation. Some have wondered whether the state of California should develop its own EFC measure to better assess families' ability to pay for college.

However, analysis and discussion reveal underlying complexity. While many parts of California have higher than average living costs, it is not a universally high-cost state.³² In fact, living-costs differences between the California cities of San Jose and El Centro are greater than between California and any other state,³³ and creating a new formula that advantages some regions over others could have negative ramifications. Moreover, questions about how to measure accurately both the costs as well as the benefits associated with living in different areas is much thornier and more complex than just looking at housing, food, and transportation. There are differences in access and cost for medical care and other resources and opportunities that are difficult to quantify and adjust for in a fair way, and attempting to do so as part of financial aid reform could delay or even thwart progress. The state would also have to weigh whether to adjust the EFC based on where a family is from or where the student plans to attend college. Moreover, it is also important to consider that using a state-specific formula for state financial aid would increase administrative burdens on the financial aid offices required to make financial aid offers to each student based on two different measures of families' financial resources (federal and state), and potentially introduce confusion for students and families.

PROPOSAL: There is widespread agreement that the federal calculation of families' ability to pay for college is not sensitive enough to the varying financial cir-

cumstances of all families, and that this means that there are students who have more need than the formula reflects but who do not qualify for enough aid. However, we believe the potential downsides and complexities involved with creating a California-adjusted EFC outweigh the potential gains. Importantly, doing so would not target any additional resources to the most under-resourced students who already receive a zero EFC. What would help those students the most would be the calculation of a negative EFC that would allow for greater differentiation of need among the lowest income students.

For now, we recommend continuing the use of the federal EFC to determine the family contribution in a state financial aid pledge. Further exploration of the possibility of creating a negative EFC for those students whose federally calculated EFC is zero may be warranted.

How Much Should Students Be Expected to Contribute to Their Own College Costs?

Another key question in designing a state financial aid pledge is how much both the federal and state government should expect students to contribute to their own college costs, from their savings, earned income, and potentially loans. Existing proposals for a statewide pledge in California have suggested annual student contribution levels ranging from \$4,500 to \$11,000.³⁴ The Federal Methodology used to calculate the EFC discussed above computes both a parent contribution and a student contribution, which together comprise the EFC. A student contribution is only calculated as part of the EFC if the student reports earnings and assets beyond established protection allowances (the Income Protection Allowance for dependent students in AY 2019-20 is \$6,660; and for single, independent students is \$10,360).³⁵

Concern about student debt has been a key driver of California's discussion of financial aid reform.³⁶ While average student loan debt among California university graduates is among the lowest in the country, policymakers remain concerned about its ramifications for individuals and the economy, as well as about the disproportionate impact student debt has on low-income and under-represented minority students. As a result, policymakers are interested in creating a path to a debt-free undergraduate education with the option to borrow if students or families still need to do so. To make a debt-free path to a BA degree in California a reality, determining a reasonable annual student contribution is crucial.

Policymakers and advocates are also rightly concerned about students working too much while enrolled, given the relationship between the number of hours worked and student completion.³⁷ As such, self-help financial expectations for students must be limited to what can be earned during a number of weekly work hours that does not impede college success. While students' hourly earnings can vary, the general presumption should be that students would earn wages equivalent to the statewide minimum wage, acknowledging that adjustments to account for higher

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minimum wages in certain cities would be unnecessarily burdensome. Working group members also proposed that the student contribution not include summer earnings, so that those dollars remain available to cover summer living expenses, as well as leave lower income students as free as their higher income peers to take unpaid internships or pursue other non-remunerative educational opportunities.

One researcher determined that a reasonable student contribution, based on estimated post-tax earnings from working a reasonable number of hours (e.g. 15 per week, after which research shows student success rates deteriorate) at state minimum wage throughout the school year, would be about \$7,600.³⁸

Another key determination for the state to make is whether all students should face the same annual expected contribution regardless of circumstances. The level at which student contributions are set can influence student behavior with respect to enrollment intensity and employment, but questions have also arisen about whether differing student contribution levels should help shape student decisions with respect to college choice or living arrangement. There was wide agreement among our working group members that the student contribution level should not be used to influence decisions about which public college to attend, or whether to live at home, on campus, or independently.

However, there was strong support for lower student contribution expectations for students from low-income households. Currently, the UC system is the only public segment that publishes borrowing rates by family income, and the results show that the likelihood of students borrowing is highest for students from the lowest income families and declines steadily as family income rises, despite students having equal self-help contributions irrespective of income.³⁹ The cause of unequal borrowing is unclear, though research has shown that factors linked to race and class, including intergenerational wealth and the extent of a person's social network, influence one's odds of finding a job and may render self-help contributions more difficult for lower income students to earn. Another possible explanation for unequal reliance on debt is that many lower income students also contribute financially to their families.⁴⁰

PROPOSAL: The state should set a reasonable annual student contribution based, at most, on the net earnings for a student working year-round at 15 hours per week, assuming statewide minimum wage. Additionally, the state should determine how to lower this contribution for the lowest income students, which could mean halving it for Pell Grant recipients, or otherwise reducing it for students with \$0 EFCs whose calculated EFCs would be negative.⁴¹ And, because there will be cases where students are unable to find work due to location and/or specific circumstances, campuses should be provided with access to flexible financial aid funds to support students who cannot find work at the expected levels.

Ensuring manageability of a financial contribution from students requires that the state not double-count student earnings by stacking a state-expected student

contribution on top of the federally calculated student contribution of the EFC. Because the federal student contribution does account for certain resources that the state would not (such as 529 plans), if the federal student contribution is larger than the state student contribution then the federal estimate should be used instead. Otherwise, the state-determined student contribution should be substituted for the federally determined student contribution.

Ensure Reasonable Non-Financial Eligibility Terms for Students

Research has shown the role of financial aid in supporting completion.⁴² Students without enough resources to pay for their tuition and non-tuition college costs are unlikely to succeed in college, as their attention will necessarily turn to employment that pays the bills. However, when funded sufficiently, financial aid enables students to enroll full time, keep their work hours manageable, and persist in college to graduation.

Yet financial aid investments are costly, and appropriators rarely fund aid programs sufficiently to meet student needs. Seeking to enhance the effectiveness of limited dollars, policymakers frequently question whether there are ways to structure financial aid to better support student completion and lower time-to-degree. In recent years, researchers and policymakers have explored whether there are additional benefits of delivering financial aid based on student performance, disbursing it in small increments over the course of an academic term, or requiring that students enroll in sufficient courses to allow for on-time graduation.

There is little empirical evidence that student outcomes are improved when financial aid receipt or eligibility is tied to such terms. While students who take more credits per term or year can complete degrees more quickly, evidence is mixed about whether financial aid incentives will result in students completing more credits, with some students helped and others hurt. Poorly designed financial aid incentives aimed at promoting stronger academic performance or faster progress can harm students if they lead students to choose easier courses, or if they are unable to manage the increased course load they were induced to sign up for. Research on the Georgia HOPE Scholarship shows students pick easier courses or majors as a strategy to meet performance benchmarks,⁴³ and racial and income gaps in college attendance widen.⁴⁴ At least one study found that HOPE reduced the likelihood of earning a STEM degree.⁴⁵ Moreover, even with sufficient aid, lower income students may still need to work long hours to cover total college costs or have other life circumstances that render them unable take and succeed in the number of courses required.

In some cases, students may be unable to respond to intended incentives. A recent example from California illustrates this challenge. In 2017, California policymakers created a new grant aid program for the 2017-18 academic year aimed at providing low-income CCC students the support needed to enroll in 15 or more credits per term.⁴⁶ Yet eight months into the academic year, just 14 percent of available

financial aid had reached students.⁴⁷ The challenge stemmed from a requirement that students have an educational plan in place in order to receive the aid, and a dearth of academic counselors prohibited students from obtaining educational plans. Intended as an incentive to keep students on track, the requirement served as a barrier between under-resourced students and the aid meant to help them succeed. For 2018-19, policymakers shifted the responsibility for ensuring students had educational plans to the schools that enrolled them.⁴⁸

While more attention is needed to address the issues of college completion, time-to-degree, and equity gaps in attainment rates, the best way to address these challenges through financial aid is to sufficiently fund the financial aid programs that bring total college costs within reach.

PROPOSAL: While more attention is needed to address the issues of college completion, time-to-degree, and equity gaps in attainment rates, the best way to address these challenges through financial aid is to sufficiently fund the financial aid programs that bring total college costs within reach. Additional efforts to promote equitable student completion should focus on the schools that create the environment and structures that foster student success and avoid creating barriers between under-resourced students and the financial aid they need. To the extent that additional requirements are placed on financial aid recipients for the purpose of establishing or maintaining eligibility beyond federal Satisfactory Academic Progress standards, such as additional degree progression or merit requirements, it is imperative that equivalent requirements are first placed on and enforced with respect to the institutions that serve them, and rigorously enforced to ensure their effectiveness. Doing so will ensure that students have the supports they need to meet the expectations placed upon them.

The Role of Private Colleges and Universities in a Statewide Affordability Pledge

To the extent that the state is considering a pledge-like model of financial aid reform as part of a comprehensive strategy for funding higher education, private colleges do not fit into it as easily as the public colleges of which the state is a primary funder. Yet just like their peers at public institutions, financially needy students enrolled at these schools need financial aid to help cover college costs. Currently, Cal Grant tuition award amounts differ based on which type of college the grant recipient attends. In 2019-20, eligible students at nonprofit institutions can receive a tuition grant of up to \$9,084, those at for-profit institutions accredited by Western Association of Schools and Colleges (WASC) can receive an award of up to \$8,056, and students at other for-profit institutions can receive up to \$4,000. These amounts are set each year in the state's Budget Act.

Despite wide agreement that private colleges and universities play an important role in California's higher education landscape, the state has traditionally asked or expected little of private schools beyond meeting institutional eligibility requirements for Cal Grants. For the 2018-19 budget year, the state began requiring that nonprofit colleges collectively accept at least 2,000 CCC transfer students who had earned an Associate Degree for Transfer (ADT) in order to maintain the maximum Cal Grant award level for students at its schools in the 2019-20 academic year. The creation of this requirement represents important progress in how the state is thinking about incorporating private colleges into its higher education plans and goals. However, with several nonprofit colleges declining to enter into transfer agreements with CCCs and the sector as a whole unable to meet established goals, the 2019-20 state budget delayed the transfer-student requirement from going into effect.⁴⁹

Moving forward, the state needs to continue to think more deeply about how to provide resources to students who attend the different types of private colleges and universities operating in California, and whether adjusting maximum award amounts each year in the state budget is the best way to support these students. In addition to establishing and enforcing goals pertaining to enrollment of targeted populations, the state could consider strengthening transparency around private college financial aid operations similar to their public counterparts, and require annual reports to the legislature on how they spend their institutional aid dollars and the extent to which they serve different underrepresented populations.

Remove Unnecessary and Outdated Barriers to Financial Aid

Financial aid programs generally include some limitations on student eligibility. At a minimum, they may limit eligibility to students enrolled in certain programs or those enrolled full time, whereas programs that are more restricted may use criteria such as age, academic merit (GPA), or application deadlines to ration available dollars amongst eligible students.

For the Cal Grant program, the primary rationing mechanism is an applicant's time out of high school or age, with academic merit and application deadlines as secondary components. However, in an era where there is the widely recognized need to get more adults through college, both for their own personal well-being and that of the state's economy and workforce, limiting aid in these ways was seen by working group participants as a notion that has outlived its usefulness. In fact, it may impede progress towards the number of new credentials necessary for our state's workforce to remain competitive.⁵⁰ In particular, there was general agreement that California state grant aid should be available to older, "non-traditional" students, beyond those for whom high school performance is a useful marker of college promise.

PROPOSAL: In most respects, California should align student eligibility for state financial aid with federal Pell Grant eligibility by:

- Making grants available to students seeking up to their first undergraduate four-year degree regardless of age or time out of high school.
- Making grants available to students enrolled part time, with full-time enrollment defined as 12 units per term, and with awards pro-rated by enrollment intensity.
- Providing grants for students enrolled in a program at least 16 weeks or four months in length leading to an undergraduate degree or certificate.
- Providing grants to students with financial need, with less resourced students receiving greater amounts of aid.

However, unlike the Pell Grant program, eligible undocumented students should be able to benefit, as currently allowed under California law.⁵¹

Additionally, two current student eligibility criteria merit reconsideration but require more in-depth analysis:

- Grade point averages (GPAs): There are ways in which Cal Grant GPA requirements are duplicative of public college admissions requirements, such as at the CSU and UC systems which require minimum GPAs for admittance.⁵² Separately, there are ways that GPA requirements pose particular barriers to older students whose high school records are either difficult to obtain or no longer representative of future academic performance. It is worth considering whether the state should eliminate GPA requirements for

financial aid entirely for all students attending public institutions. At a minimum, the state should provide older students an alternative method for establishing eligibility than afforded to them under Cal Grants currently.

- Application deadline: The primary March 2nd Cal Grant application deadline is widely considered to be a barrier for students who delay making college plans. A secondary deadline in September exists to help address this concern, but students who receive grants based on the September deadline do not learn about their financial aid until after courses have begun and are thus unable to use information about their financial aid eligibility to shape their schedule. Current financial aid deadlines should be carefully reconsidered to strike a balance between ensuring administrative and budgeting feasibility (both of which are simpler with established, early deadlines) and providing flexibility and access for non-traditional students, whose college decision-making may take place on a different timeline than that of more traditional students.

Leverage the Strengths of the State and Colleges to Administer Grant Aid Effectively

For decades, California financial aid experts have debated the merits of centralized or decentralized state financial aid. Centralized administration would mean that grants are governed by a state agency and could mean more transparency and more consistent, if potentially less flexible, treatment of students. Decentralized administration would mean that grants are managed directly by college campuses, providing them with more flexibility to address students' specific needs, but with less state oversight or control.

With respect to instituting a statewide financial aid pledge, working group members generally agreed that neither full centralization nor decentralization would suffice. Instead, a hybrid approach could leverage the strengths of both centralized and decentralized administration. The Century Foundation proposed a model like this where the state focuses on covering tuition and fees and the colleges manage aid to cover other costs.⁵³ Their plan would task CSAC with providing awards to eligible students to offset their tuition costs, given that these costs are well established and understood at the state level. This would help address broad affordability concerns and enable the state to send a strong message that tuition will not be a barrier to college for students with financial need. College campuses, then, would provide additional grant assistance, funded through institutional, federal, and state support, to bring down each student's COA to the affordability pledge level. With non-tuition costs comprising the majority of total college costs for students at public institutions – which serve the vast majority of California college students⁵⁴ – this second portion of an affordability pledge plays an equally important role as tuition coverage in promoting student success.

Under a hybrid model like the one described above, it is important that institutions uphold their current investments in need-based financial aid. The state should include a maintenance-of-effort component in any financial aid pledge participation agreement to help ensure that institutional aid funding levels keep pace, and bolster annual reports to the state legislature to increase accountability and transparency. Moreover, for schools with a sizeable share of students who borrow through student loan programs, current Cal Grant institutional eligibility criteria should be maintained to ensure recipients take their awards to schools with at least a minimum graduation rate and a federal student loan cohort default rate that does not exceed a maximum threshold. Substantial levels of new investment may warrant additional requirements.

Communicate Effectively with Students and Families

No matter how well designed, the effectiveness and success of a college affordability pledge relies heavily on the communications strategy underlying it. If the intended recipients do not know about or fully understand it, the pledge may not serve the very students who most need its support to succeed. Poor understanding of both the cost of college and the availability of financial aid especially impacts the students who most need assistance: even among similarly prepared students, high-achieving, low-income students are less likely than their higher income but lower-achieving peers to go college and earn bachelor's degrees.⁵⁵

Because a college affordability pledge relies on the federal government, the state government, and colleges working together to provide students with the financial resources they need to be successful, it is critical that a clear, accessible, and unified message is delivered to students and families early and often. From first understanding what opportunities college provides, to forming an intent to attend college, to considering where to apply and where to attend, cost and financial aid are crucial context. Overly complex, confusing, poorly communicated and timed messages about what aid might be available to offset the costs of college are especially likely to constrain the decision-making of the most vulnerable students.⁵⁶ At its core, an affordability pledge should include the nuances that make it equitably designed and targeted, but it is also critical that it be communicated to students and families in language that is simple and understandable.

The University of California (UC) has largely accomplished this feat and provides a model for the state to emulate. Their clearest and broadest communications about college affordability are focused on their Blue & Gold Opportunity Plan while their Education Financing Model (EFM) employs much more nuanced design.⁵⁷ Specifically, while the mechanics underlying UC's EFM are relatively complex, the message communicated to students and families is that if their household income falls below a certain threshold (\$80,000) and they have financial aid eligibility, their tuition will be fully covered. The value of Blue & Gold messaging provides low- and middle- income students with a clear understanding that tuition will not be a barrier for them, and recent research has shown that when lower income students know their tuition will be covered, they are more likely to enroll.⁵⁸ In practice, many UC students also receive additional financial assistance to cover non-tuition costs, and many with incomes above the stated threshold receive at least partial tuition coverage. The Blue & Gold messaging sends a strong, clear message about affordability to students and families, and illustrates that it is indeed possible to have both nuanced policy and simple messaging that overlays it.

PROPOSAL: Without all the details of an affordability pledge and corresponding implementation plan fully fleshed out, it is challenging to develop detailed recommendations for how to maximize its effect through communications. *However*, there are key evidence-based principles that should serve as the basis for the

The UC Blue & Gold messaging sends a strong, clear message about affordability to students and families, and illustrates that it is possible to have both nuanced policy and simple messaging that overlays it.

future development of a comprehensive, effective, and student-centered communications strategy:

- While equitable policy requires nuance, communication with students and their families should focus on simple messaging that uses clear, standardized financial aid terminology. A study on Cal Grant award notifications found that students who received modified award letters designed to be clearer and more student-centered were as much as 6.8 percentage points more likely to register for a WebGrants (state financial aid) account – the first step to claiming their Cal Grant award.⁵⁹ Communications should also be clear about total college costs, net costs (or what the student and family is expected to contribute), and if loans are included clearly differentiated from grant aid.⁶⁰
- While messaging should be simple and clear enough to reach a wide range of students, especially the most disadvantaged, the state should also create tailored outreach strategies to address the unique needs of specific populations (e.g., middle school students, parents, and members of underserved communities).
- Communications broadly need to reach students and their families throughout the long arc of the college and aid application process. This starts long before students complete applications and continues through to aid receipt and even loan repayment.
- Effective communications require resources, and the state should make an appropriate investment to support activity at the state and college level.⁶¹

To the extent that new resources are phased in over time, the scope of the problem requires that the state make sizable headway immediately and at each step along the way.

Prioritize Investment of State Dollars

Reforming state financial aid to remove barriers to student eligibility and more fully meet students' financial needs will be costly. Exactly how costly is unknown: while estimates of these costs exist, none is sufficiently robust due to limitations in available data. A key next step must be attempting to overcome some of these limitations, to grasp better the scope of the problem as well as the cost of solving it, while prioritizing new investments where the need is incontrovertible.

Consensus around the need for financial aid reform centers on two primary shortcomings of the current Cal Grant program: that too many under-resourced students are going unserved and that those who are served need more support for non-tuition costs. Faced with limited resources for new investments, policymakers have asked stakeholders to choose which of the two is more important to address first. When posed with this question, working group members were evenly split between prioritizing those who are currently unserved and those who are currently underserved.

Ultimately, the state cannot choose just one and achieve the full benefits of a reformed approach to financial aid and college affordability. To the extent that new

resources are phased in over time, the scope of the problem requires that the state make sizable headway on both fronts immediately and at each step along the way.

Data and Modeling Next Steps

Each year, CSAC reports that more than 300,000 students applied and met eligibility requirements for a “competitive” Cal Grant but were not awarded grants because of insufficient grant availability. This population of students is the most frequent focus of discussions about expanding access to financial aid. However, this group includes only those applicants who applied for Cal Grants by a requisite deadline, including providing a GPA to CSAC – factors understood to be barriers for non-traditional students in particular – and is not the only group of students who would benefit from a reformed financial aid approach.

Each year, many more Californians receive federal Pell Grants than state Cal Grants, and should current Cal Grant eligibility barriers be removed they would virtually all become eligible for state grant aid as well. Current Cal Grant and proposed financial aid pledge reforms would also extend state aid to students well beyond those who are Pell eligible. In fact, where the vast majority of Pell Grants help students with family incomes of \$40,000 or less,⁶² a pledge-like model for financial aid reform would extend eligibility to students with incomes more than twice as high. If student eligibility were to be based on students’ financial situations alone, in an effort to meet students’ financial need without additional deadline, age, or other barriers, far more California undergraduates will become eligible for some amount of state aid than receive it now. Understanding the scope of this need is imperative for determining how to prioritize new spending.

CSAC is best positioned to understand and inform the full bounds of student aid eligibility and need, as doing so is not possible without publicly available data. Open questions about the accuracy of COA budgets (described on page 7) are one challenge, as is the lack of publicly available information about the different components of EFCs. Also, publicly available data on the distribution of students across different living status categories are skewed towards a young, traditional student profile, and the cost estimates for students living with family are understated given flaws in federal data reporting.⁶³ Both of these issues serve to understate student costs and need substantially.

As the administrator of state financial aid, CSAC receives financial aid application records for every Californian who completes a FAFSA, well beyond the population of students who apply for or receive Cal Grants, and could use these records to better ascertain the number and types of students who could benefit from any given reform proposal. These records include students’ EFCs (parent and student contributions) along with information about where students are considering enrolling and whether they intend to live on-campus, off-campus, or with family while enrolled. At a minimum, CSAC could use applicants’ FAFSA living statuses combined with their EFCs to estimate costs. While examination of these records alone

would add useful information about potential new financial aid recipients, if matched with public college records they would allow for examination of student costs and unmet needs for enrolled students only.

Targeting New Investments

While getting a handle on the full bounds of eligibility, we recommend moving forward immediately to extend state grant eligibility to more of the students who are currently eligible for Cal Grants but turned away. With more than half of all students turned away having an EFC of zero, the approach to expanding eligibility should be focused on better supporting the least resourced students first.⁶⁴ Options for doing so include:

- Extending window of entitlement eligibility to several years after high school graduation or GED receipt to allow students more time to claim an entitlement award.
- Expanding entitlement categories to specific populations of high-need students (i.e., groups in which the majority of beneficiaries have EFCs of zero). Grant funding to expand eligibility should focus on the least resourced students first.
- Increasing the number of competitive grants available; while expansion of the entitlement award better supports clear messaging with respect to financial aid availability, this option provides a targeted approach to serving the least resourced students first.

While getting a handle on the full scope of award size increases is needed, we recommend moving forward immediately to provide new resources to recipients whose need is clear. Options for doing so include:

- Increasing Cal Grant B access awards for all or some recipients. Grant funding to increase award sizes should focus on the least resourced students first.
- In line with a hybrid approach to administration, providing new available funds across colleges, as flexible resources, to support students in covering non-tuition costs. New resources should be allocated on the basis of low-income student enrollment.

Conclusion

The next steps California takes to expand the scope and reach of its investments in college affordability will have major repercussions for college access, equity, and completion. Years of analysis and discussion have converged on a North Star to guide the state toward more effective financial aid policy centered on students' needs, realities, and challenges.

The recommendations in this report identify essential components for designing a comprehensive student-centered approach to financial aid that prioritizes those who have been most under-resourced and underserved. Although some details inherent in an affordability pledge require further exploration, the state is well positioned to make strategic investments now on its way to a more equitable, prosperous future for Californians and their economy.

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college
access & success

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1212 Broadway, Suite 1100
Oakland, CA 94612
510.318.7900

110 Maryland Ave, NE, Suite 201
Washington, DC 20002
202.223.6060