

SUBCOMMITTEE NO. 1

Agenda

Senator Marty Block, Chair
Senator Carol Liu
Senator Mark Wyland



Thursday, March 13, 2014
9:30 a.m. or upon adjournment of session
Room 3191, State Capitol

Consultant: Joe Stephenshaw

<u>Item</u>	<u>Department</u>
6980	California Student Aid Commission (CSAC)
	<i>Informational Hearing</i>
	Cal Grants and Governor's Financial Aid Proposals

Presenters

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Diana Fuentes-Michel, Executive Director, California Student Aid Commission

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Public Comment

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6980	California Student Aid Commission
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Since its creation by the Legislature in 1955, the California Student Aid Commission (CSAC) has continued to operate as the principal state agency responsible for administering financial aid programs for students attending public and private universities, colleges, and vocational schools in California. The mission of CSAC is to make education beyond high school financially accessible to all Californians by administering state authorized financial aid programs.

CSAC is composed of 15 members: 11 members are appointed by the Governor and confirmed by the Senate, two members are appointed by the Senate Rules Committee and two members are appointed by the Speaker of the Assembly. Members serve four-year terms except the two student members, appointed by the Governor, who serve two-year terms.

Cal Grant Program. The Cal Grant program is the primary financial aid program run directly by the state. Modified in 2000 to become an entitlement award, Cal Grants are guaranteed to students who graduated from high school in 2000-01, or beyond, and meet financial, academic, and general program eligibility requirements. Administered by CSAC, the following table displays the Cal Grant entitlement awards.

Cal Grant Entitlement Awards	
Cal Grant A	Provides tuition fee funding for the equivalent of four full-time years at qualifying postsecondary institutions to eligible lower and middle income high school graduates (income ceiling of \$87,400 for a family of four) who have at least a 3.0 grade point average (GPA) and apply within one year of graduation.
Cal Grant B	Provides funds to eligible low-income high school graduates (income ceiling of \$45,900 for a family of four) who have at least a 2.0 GPA and apply within one year of graduation. The award provides up to \$1,473 for book and living expenses for the first year and each year following for up to four years (or equivalent of four full-time years). After the first year, the award also provides tuition fee funding at qualifying postsecondary institutions.
Community College Transfer	Provides a Cal Grant A or B to eligible high school graduates who have a community college GPA of at least 2.4 on a four-point scale and transfer to a qualifying baccalaureate degree granting college or university.

The maximum award for new Cal Grant A and B recipients in 2014-15 is equal to the mandatory systemwide tuition at the University of California (UC) and the California State University (CSU), \$8,056 at private, non-profit institutions, and private, for-profit institutions that are accredited by the Western Association of Schools and Colleges (WASC) as of July 1, 2012, and \$4,000 at private, for profit institutions that are not WASC accredited as of July 1, 2012. Renewal award recipients at private, for-profit and non-profit institutions will continue to receive an award amount of \$4,000 to \$9,223 depending on when they received their first award.

In addition to the entitlement awards, the Cal Grant program includes a limited number of competitive awards and awards for occupational or technical training. These awards are displayed in the following table.

Non-Entitlement Cal Grant Awards	
Competitive Awards	There are 22,500 Cal Grant A and B competitive awards available to applicants who meet financial, academic, and general program eligibility requirements. Half of these awards (11,250) are offered to those applicants who did not receive an entitlement award and meet the March 2 deadline. The remaining 11,250 awards are offered to students who are enrolled at a California Community College and meet the September 2 deadline.
Cal Grant C	The Cal Grant C Program provides funding for financially eligible lower income students preparing for occupational or technical training. The authorized number of new awards is 7,761. For new and renewal recipients, the current tuition and fee award is up to \$2,462 and the allowance for training-related costs is \$547.

The LAO points out that Cal Grant spending nearly doubled from 2007–08 to 2011–12, mostly in response to tuition increases at UC and CSU. Since 2011–12, tuition has remained flat and growth in Cal Grant costs has been driven mainly by participation increases. In 2012–13, for example, the number of new Cal Grant recipients increased 19 percent over the prior year. Implementation of the California Dream Act accounts for about one-quarter of the growth.

The following chart, from the LAO’s analysis of the Governor’s proposed 2014-15 higher education budget, displays three-year expenditures for Cal Grants by segment, program and award type. As the chart shows, the General Fund is the primary source of funding for the Cal Grant program, accounting for \$1.2 billion of the \$1.8 billion proposed for 2014-15.

Cal Grant Spending					
<i>(Dollars in Millions)</i>					
	2012-13 Actual	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
By Segment:					
University of California	\$721	\$781	\$822	\$41	5%
California State University	437	501	552	51	9
Private nonprofit institutions	222	240	238	-1	-1
California Community Colleges	88	100	107	7	7
Private for-profit institutions	50	35	37	2	6
Totals	\$1,518	\$1,656	\$1,756	\$100	6%
By Program:					
High School Entitlement	\$1,234	\$1,331	\$1,418	\$87	7%
CCC Transfer Entitlement	185	214	217	3	1
Competitive	95	105	114	9	9
Cal Grant C	4	6	6	1	11
Totals	\$1,518	\$1,656	\$1,756	\$100	6%
By Award Type:					
Cal Grant A	\$868	\$985	\$1,059	\$74	7%
Cal Grant B	646	665	691	26	4
Cal Grant C	4	6	6	1	11
Totals	\$1,518	\$1,656	\$1,756	\$100	6%
By New or Renewal:					
New	\$471	\$541	\$525	-\$16	-3%
Renewal	1,047	1,115	1,231	116	10
Totals	\$1,518	\$1,656	\$1,756	\$100	6%
By Funding Source:					
General Fund	\$630	\$1,016	\$1,151	\$135	12%
Student Loan Operating Fund	85	98	60	-38	-64
Federal TANF	804	542	545	3	1
Totals	\$1,518	\$1,656	\$1,756	\$100	6%
TANF = Temporary Assistance for Needy Families. Posted January 2014.					

Other Awards. In addition to Cal Grants, CSAC administers various other financial aid programs, including:

- **The Middle Class Scholarship Program.** Provides a scholarship to UC and CSU students with family incomes of up to \$150,000. The scholarship amount is limited to no more than 40 percent of the UC or CSU mandatory system-wide tuition and fees. The individual award amount is determined after any other publicly-funded financial aid is received. The program will be phased in over four years, with full implementation in 2017-18. The program is funded from the General Fund.
- **The Assumption Program of Loans for Education (APLE).** Allows the State to issue agreements for loan assumptions annually to students and district interns who are pursuing careers in teaching and credentialed teachers teaching at schools ranked in the

lowest 20 percentile of the Academic Performance Index (API). Through APLE, a participant who teaches a total of four years can receive up to \$11,000 toward outstanding student loans. APLE participants who provide the designated teaching service in the areas of math, science, or education specialist instruction in a school ranked in the lowest 60 percentile of the API may be eligible to receive an additional \$1,000 per year in loan assumption benefits. Participants meeting this requirement who provide teaching service in a California public school that is ranked in the lowest 20 percentile of the API may be eligible to receive an additional \$1,000 per year for a possible total loan assumption benefit of up to \$19,000. Beginning in 2012-13, no new APLE warrants have been issued; only renewals will continue to be funded. There are similar programs for graduate and nursing studies, which also only currently fund renewal awards.

- **The Child Development Teacher and Supervisor Grant Program.** Provides grants to recipients who intend to teach or supervise in the field of child care and development in a licensed children's center. Recipients attending a California Community College may receive up to \$1,000 annually and recipients attending a four-year college may receive up to \$2,000 annually for a total of \$6,000. This program is funded from federal funds through an agreement with the State Department of Education.
- **The California Chafee Grant Program.** Provides grants of up to \$5,000 to eligible foster youth who are enrolled in college or vocational school at least half-time. New and renewal awards are assigned based on available funding. This program is funded from federal funds and the General Fund through an agreement with the State Department of Social Services.
- **The California National Guard Education Assistance Award Program.** Provides funding for active members of the California National Guard, the State Military Reserve, or the Naval Militia who seek a certificate, degree, or diploma. Recipients attending the UC or CSU may receive up to the amount of a Cal Grant A award. Recipients attending a community college may receive up to the amount of a Cal Grant B award. Recipients attending a private institution may receive up to the amount of a Cal Grant A award for a student attending the University of California. An award used for graduate studies may not exceed the maximum amount of a Cal Grant A award plus \$500 for books and supplies. This program is funded from the General Fund through an agreement with the California Military Department.
- **The Law Enforcement Personnel Dependents Scholarship Program.** Provides college grants equivalent to Cal Grant amounts to dependents of: California law enforcement officers, officers and employees of the Department of Corrections and Rehabilitation, and firefighters killed or permanently disabled in the line of duty. This program is funded from the General Fund.
- **The John R. Justice Program.** Provides loan repayments to eligible recipients currently employed as California prosecutors or public defenders who commit to continued employment in that capacity for at least three years. Recipients may receive up to \$5,000

of loan repayment disbursed annually to their lending institutions. This program is federally funded through an agreement with the Office of Emergency Services.

Governor's Budget Proposals. The Governor's budget includes the following adjustments related to postsecondary education financial aid funding administered by CSAC:

- **Cal Grant Program Growth.** Includes \$3.4 million General Fund in 2013-14, and \$103.3 million General Fund in 2014-15, to reflect increased participation in the Cal Grant program. Of the 2014-15 amount, \$28 million is attributable to the second year of implementation of the California Dream Act.
- **Expand Cal Grant Renewal Award Eligibility.** Includes \$14.9 million General Fund to allow students who have previously been denied a Cal Grant renewal award for financial reasons (their income rose above eligibility levels) to reapply for the program no more than three academic years after receiving their original award (if their incomes fall below the income threshold in that timeframe).
- **Offset Cal Grant Costs with Federal Temporary Assistance for Needy Families (TANF) Reimbursements.** Includes a decrease of \$3.2 million General Fund to reflect increased TANF funds available through an interagency agreement with the Department of Social Services. This adjustment will bring the total TANF funds expended on the Cal Grant program to \$544.9 million in 2014-15.
- **Offset Cal Grant Costs with Student Loan Operating Fund (SLOF).** Includes \$60 million SLOF funds to offset Cal Grant General Fund costs.
- **Middle Class Scholarship Implementation.** Includes \$107 million General Fund to begin implementation of the Middle Class Scholarship Program.

The majority of the Governor's budget financial aid adjustments are based on existing statutory or program requirements (such as Cal Grant Growth and Middle Class Scholarship Implementation) or funding offsets that do not impact program operations (such as the SLOF and TANF offsets). The proposal to expand Cal Grant renewal eligibility is the only significant financial aid policy change contained in the Governor's budget.

LAO. In its analysis of the Governor's proposed 2014-15 higher education budget, the LAO makes the following recommendations relative to financial aid programs:

- **Consider Prioritizing Middle Class Scholarship Awards.** Early estimates suggest the statutory appropriation of \$107 million may be insufficient to cover the award levels scheduled for 2014-15. As a result, awards are likely to be prorated downwards. Rather than reducing all awards proportionally, the LAO recommends the Legislature consider adjusting this requirement to prioritize students with greater financial need. Students with the highest need could receive the full scheduled award (up to 14 percent of UC or CSU tuition for 2014-15) while those with no financial need might receive lesser amounts.

- **Recommend Time Limit for Middle Class Scholarship Awards.** The LAO points out that many financial aid programs, including Cal Grants, provide support for a limited number of years (typically four years of full-time enrollment or the equivalent). Such limits provide a strong incentive for students to complete their studies expeditiously. California's nonprofit colleges and universities maintain that Cal Grant recipients at their institutions have higher four-year graduation rates than nonrecipients because of this incentive. For the new Middle Class Scholarship Program, however, the number of years a student may qualify for awards is unlimited. The LAO recommends the Legislature set a statutory time limit, comparable to the Cal Grant limit.
- **Recommend Adopting Cal Grant Eligibility Change.** According to the LAO, there is no justification for denying a Cal Grant renewal award to an otherwise eligible recipient who temporarily exceeded financial limits in one of the past few years. The LAO recommends the Legislature adopt the Governor's proposal to permit these recipients to qualify for renewals within three academic years of initially receiving an award.

Issues to Consider.

Funding for Two Financial Aid Outreach Programs Set to Expire in 2015-16. The LAO has also pointed out that California funds two relatively longstanding financial aid outreach programs that expire in 2015-16: The California Student Opportunity and Access Program and the California Cash for College Program. Created in 1978, the California Student Opportunity and Access Program is designed to increase postsecondary education opportunities for low-income and underrepresented elementary and secondary school students. The program provides special tutoring, counseling, and information services to participants. Funds support 15 local consortia, each consisting of a local high school and community college. Consortia also include representatives from nonprofit educational, counseling, or community agencies, as well as postsecondary education institutions. The second outreach program, California Cash for College, provides free workshops across the state to help students and their parents complete the federal financial aid application.

Both programs have been funded at times from the General Fund, the Student Loan Operating Fund, and federal funds. Since 2008-09, they have been supported by the federal College Access Challenge Grant, which is set to expire in 2015-16. The LAO recommends the Legislature direct CSAC to report on outcomes and effectiveness of these programs by October 2014. The Legislature could use this information to determine whether to continue funding these outreach efforts (including whether to backfill with state funds if the federal grant is not renewed).

Research cited by Education Trust-West notes that students who apply for financial aid are twice as likely to enroll in college as students who do not, and are more likely to persist in college once they have enrolled; thus, policies that encourage applying for financial aid appear warranted.

Education Trust-West has made several recommendations to increase the number of students applying for federal financial aid and Cal Grants, including having school districts automatically submit graduation verification and student GPA's to CSAC, having school districts track

students' application progress using the electronic WebGrant system, and having CSAC annually report application data by high school to the public.

How State Financial Aid Programs Impact Access and Affordability. Although, as the LAO points out, public financial aid covers tuition for the majority of public college students, living expenses, including food and housing; transportation; and personal expenses, make up the majority of undergraduate student budgets. These expenses are similar across segments (roughly \$13,000 at CCCs and the CSU and \$16,000 at the UC). These costs are relatively high in California, about 20 percent higher than the national averages.

According to an April 2013 report by the Institute for College Access and Success (TICAS), done in collaboration with more than a dozen other student, civil rights, business, and college access organizations, Cal Grant awards for many qualifying students have been stagnant for decades and many of California's low-income college students are left out of the program entirely. For example, TICAS points out that the original Cal Grant B access award was \$900 in 1969-70, equal to \$5,900 in 2012-13 dollars. Instead the 2012-13 access award of \$1,473, where it remains today, was just one quarter of what the original award would be worth had it kept pace with inflation. TICAS also points out that, beside the recent high school graduate entitlements; all other eligible applicants compete for a very limited number of grants. According to their report, in 2012-13, there was only one competitive Cal Grant available for every 17 eligible applicants.

More recently, TICAS has reported that college affordability, as measured by the proportion of family income needed to pay college costs, is inversely related to family income, with lower income families expected to contribute a much larger share of their income to paying for college than higher income families. The following table, prepared by TICAS, displays college costs by net price for different income ranges, percentage of total income required to pay for college, and percentage of discretionary income required to pay for college.

Income Range	What does college <u>cost</u> ?			Is the cost of college <u>affordable</u> ?					
	2011-12 Net Price by Family Income			Share of Total Income Required to Pay the Cost			Share of Discretionary Income Required to Pay the Cost		
	UC	CSU	CCC	UC	CSU	CCC	UC	CSU	CCC
\$0 - \$30,000	\$8,808	\$6,563	\$5,815	29%	22%	19%	64%	48%	42%
\$30,001 - \$48,000	\$10,126	\$8,945	-	21%	19%	-	32%	28%	-
\$48,001 - \$75,000	\$13,771	\$13,387	-	18%	18%	-	23%	23%	-
\$75,001 - \$110,000	\$21,234	\$18,572	-	19%	17%	-	23%	20%	-
> \$110,000	\$28,282	\$20,021	-	19%	13%	-	21%	15%	-

TICAS, along with other student, civil rights, business, and college access organizations have presented three recommendations designed to build on the strengths of the Cal Grant program and better serve California's students going forward:

1. Increase the Cal Grant B access award.
2. Serve more of the state's Cal Grant eligible students.

3. Include tuition awards for first-year Cal Grant B recipients at universities.

The Cal Grant maximum award for students attending private nonprofit colleges and universities is scheduled to decrease by 11 percent in the budget year. The 2012 Budget Act put in place reductions to the Cal Grant award amounts for independent non-profit and accredited for-profit institutions. The Governor's 2014-15 budget proposal accounts for the continued reduction. More than 32,000 California students use Cal Grants to help them attend these schools, allowing access to college for low-income students during a period in which the CSU system is turning away eligible students. The chart below indicates the reduced amount of the Cal Grant for these schools.

Cal Grant Maximum Award for WASC Accredited Private Colleges and Universities					
	2011-12	2012-13	2013-14	2014-15	Cumulative Change
Cal Grant Amount Per Student	\$9,708	\$9,223	\$9,084	\$8,056	-17%

A trailer bill associated with the 2011 budget act put into place state requirements for an institution's participation in the Cal Grant program. Currently, all participating institutions where more than 40 percent of students borrow federal loans must have a cohort default rate of no more than 15.5 percent and a graduation rate of at least 30 percent.

Given the role that accredited private nonprofit colleges and universities play in California's postsecondary education system and the need to maximize degree and certificate output (many studies point to a significant gap between the number of degrees and certificates that the workforce will demand in the next decade and the number that California is on pace to produce), it is important to understand how the reductions in the maximum Cal Grant award impact access and affordability at these institutions. In addition, the LAO has pointed out that, overall, the state cost of a Cal Grant student in a private nonprofit college or university is less than the state cost of a Cal Grant student at the UC or CSU. The LAO estimated that in 2012-13, the annual state subsidy provided for a Cal Grant student attending a UC institution was approximately \$24,200, \$12,985 at the CSU, and \$9,223 at a private nonprofit institution.